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THIRTY-EIGHTH BIENNIAL REPORT

FROM THE

OFFICE OF STATE TAX COMMISSIONER

M.K. HEIDI HEITKAMP

TO THE

Governor and the Office of Management and Budget

STATE OF NORTH DAKOTA

For the Biennial Period July 1, 1985 to June 30, 1987

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NORTH DAKOTA TAX DEPARTMENT
STATE CAPITOL, BISMARCK, NORTH DAKOTA 58505

M. K. HEIDI HEITKAMP
STATE TAX COMMISSIONER

State of North Dakota
State Capitol
Bismarck, North Dakota 58505

December 1, 1987

To: The Honorable George A. Sinner, Governor
Mr. Richard Rayl, Director of Office of Management and Budget

It is with great pleasure that I submit for your consideration the Thirty-eighth Biennial Report of the Tax Commissioner.

The report covers the operations of the Office of State Tax Commissioner for the period July 1, 1985, through June 30, 1987, and is submitted pursuant to Sections 54-06-04 and 57-01-02 of the North Dakota Century Code.

Sincerely,

Heidi Heitkamp

M. K. Heidi Heitkamp
North Dakota Tax Commissioner

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This report was prepared by Tax Commissioner M.K. Heidi Heitkamp with the assistance of staff members Sid Bender, Maureen Gerl, Gretchen Ryan and Kathryn L. Strombeck.

SUMMARY OF TAX DEPARTMENT EFFORTS TO IMPROVE SERVICE AND PRODUCTIVITY

The 1985-87 biennium was one of challenge and change for the State of North Dakota and the Tax Department. The economic problems of the previous biennium continued to plague individuals, industry, and government. The gravity of the state's fiscal problems was manifested in the Special Legislative Session held in December 1986. The legislation enacted during the Special Legislative Session and the legislation enacted during the 1987 Legislative Session have had a significant and historic impact on the administration of North Dakota's principal taxes.

The following is a summary of activities undertaken during the 1985-87 biennium by the Tax Department.

AUDIT RESULTS

During the 1985-87 biennium, the Tax Department collected $35.7 million in audit related collections. This performance is surpassed only by the 1983-85 biennium, during which $38.5 million was collected.

Once again, corporate income tax audit collections were the largest contributor to the success of the audit program. This section's total collections were $15.9 million, including one settlement of $2.1 million. Audit and compliance activity also produced $10.1 million in sales tax revenue, $7.3 million in oil and gas tax revenue, and $2.4 million in individual income tax revenue.

The significant achievements of the Department's audit operations reflect increased efficiency in audit selection and performance.

STATE AUDITOR'S REPORT

On March 5, 1987, the State Auditor's Office completed its examination for the years ended June 30, 1985, and 1986. Once again, the Tax Department received an unqualified opinion and there were no formal recommendations for changes in Tax Department operations in the Auditor's Report for fiscal years 1985 and 1986.

THE FAIR SHARE PROGRAM

In 1983, the Legislature responded to a significant revenue shortfall by enacting into law a proposal by Tax Commissioner Kent Conrad that would create a "Fair Share" program to better enforce compliance by all taxpayers.

The Legislature appropriated $960,000 for additional audit and support positions, as well as travel money. In return, the Tax Department promised to increase tax collections by $10 million during the biennium. The great success of the program resulted in continued funding by the Legislature. During the 1985-87 biennium, Fair Share collections resulted in more than $12.5 million, over $2.5 million more than the biennial goal.

COMPUTER SYSTEM CHANGES

The Tax Department has engaged in a plan to update and expand its present systems and adopt new techniques in information processing. Conversion of the corporate and individual income tax systems to database was completed during this biennium. This brings to six the number of major tax systems to be converted to database.

In addition, a city restaurant and lodging tax capability was started during the 1985-87 biennium and will be incorporated into the existing sales tax system. This system will allow the processing and collection of restaurant and lodging taxes for those cities that adopt this tax. The system also will be utilized to certify back to the specific cities the taxes collected by the Tax Department on their behalf.

The Tax Department completed the installation of a local area network during this biennium, which links micro computers within all major divisions. This network greatly improves productivity of the department through the use of word processing, electronic spreadsheets and graphics, database management systems, and micro to mainframe communications.

NATIONAL BELLAS HESS

In a 1967 decision, National Bellas Hess v. Illinois Department of Revenue, the U.S. Supreme Court ruled that out-of-state direct marketers and border sellers are not obligated to collect sales or use taxes from buyers and remit the revenue to the home state of the purchaser. Since that time, there has been an explosion in the number of out-of-state firms who are either direct marketers or border sellers. The Direct Marketing Association predicts that by 1990 direct marketers will control at least 20 percent of retail sales.

The increase in these kinds of sales is eroding the tax base. While consumers who buy from out-of-state businesses are legally liable for "use" taxes, costs of collection would exceed the revenue collected; revenue departments must rely on consumers to voluntarily pay the tax. The federal Advisory Commission on Intergovernmental Relations (ACIR) estimates that the states are losing at least $2.0 billion in tax revenue each year on untaxed mail order sales. In North Dakota the estimated tax revenue loss for the 1987-1989 biennium is $10 to $18 million.

Out-of-state firms not collecting tax enjoy an unfair advantage and threaten the future of Main Street retailers. In recognition of the seriousness of the problem, the 1987 North Dakota Legislative Assembly adopted legislation expanding the state's sales and use tax jurisdiction to include direct marketers. The Legislature also adopted a formal request of Congress to adopt legislation which would allow states to require out-of-state companies to collect and remit tax on all transactions.

On May 13, 1987, Tax Commissioner Heitkamp appeared on behalf of the Multistate Tax Commission before the Select Revenue Measures Subcommittee of the Ways and Means Committee, U.S. House of Representatives, to testify concerning H.R. 1242, the "Interstate Sales Tax Collection Act of 1987," sponsored by Representative Byron Dorgan. The bill would close the tax loophole which currently benefits out-of-state businesses and denies states the tax revenues to which they are entitled.

GENERAL WITHHOLDING

Because of the need to avert a negative ending balance for the 1985-87 biennium, a Special Legislative Session was held in December 1986. During that session, the Legislature passed House Bill 1901 which included a provision for general withholding of state income tax from wages paid to all employees who have federal income tax withheld. That legislation was suspended on December 31, 1986, when referral petitions were filed with the Secretary of State.

Due to the referral, Governor Sinner called a special election, which was held on March 18, 1987. In that election, the voters approved HB 1901. The implementation effort began at the conclusion of the 1987 Legislative Session.

INDIVIDUAL INCOME TAX RETURNS PROCESSING

The continued economic hardship and budgetary constraints in the 1985-87 biennium required the greatest productivity for the smallest expenditure in all areas of state government. In both years of the biennium the Tax Department again earned the distinction of being the first state in the nation to complete processing of timely filed and accurate individual income tax returns and refund claims. In 1987 the processing was completed two days earlier than in 1986 and approximately $2,300 under budget.

The Tax Department's rapid processing of returns benefits the state through earlier deposit of funds and accrual of interest on moneys.

COLLECTION OF DELINQUENT TAXES

To reduce the number of delinquent accounts, a hearings process throughout the state was instituted in May 1985. The Tax Department called delinquent taxpayers to hearings before an assistant attorney general to make arrangements to pay overdue taxes.

During the 1985-87 biennium 1,717 delinquent taxpayers were notified to either pay in full, arrange an acceptable payment schedule, or appear at courthouse hearings (held in 13 county seats) to explain why settlement had not been arranged. Of those 1,717 notified, more than 90 percent paid in full or committed to an acceptable payment plan. Those who did not respond to the informal hearings process were notified that they are subject to legal action.

The hearings process has been a successful and cost effective means of reducing the number of delinquent accounts and avoiding complicated and expensive legal actions.

POWERS AND DUTIES OF THE TAX COMMISSIONER

1. Shall perform all the duties enjoined upon him/her by law.

2. Shall exercise general supervision over all assessors of general property or other taxes, over township, county, and city boards of equalization and over all other assessing officers, in the performance of their duties, to the end that all assessments of property be made relatively just and equal in compliance with the laws of the state.

3. Shall direct actions and prosecutions to be instituted to enforce the laws relating to the penalties, liabilities and punishments of persons, officers of corporations, public officers, and others, for failure or neglect to comply with the provisions of law governing the returns, assessments, and taxation of property, income, or other objects of taxation, cause complaints to be made against officers for neglect or refusal to comply with the law, and generally shall enforce all tax proceedings and revenue laws of the state in the proper courts.

4. May require state's attorneys of the several counties to assist in the commencement and prosecution of actions and proceedings for the violation of any laws in respect to assessment or taxation.

5. May require township, city, county, and other public officers to report information as to the assessment and collection of property and other taxes, receipts from licenses and other sources, the expenditure of public funds for all purposes, and such other information as may be needful in the administration of the tax laws, in such form and upon such blanks as he/she may prescribe.

6. May summon witnesses to appear and give testimony and produce books, records, papers, and documents relating to any matter which he/she or the state board of equalization may have authority to investigate or determine, and may cause the depositions of witnesses residing within or without the state, or temporarily absent therefrom, to be taken, upon notice to the interested parties, if any, in like manner as depositions of witnesses are taken in civil actions in the district court.

7. May require a reassessment of property in any county to be made in accordance with chapter 57-14 whenever that is deemed necessary, or may require county auditors to place on the assessment rolls property which may be discovered and which has not been taxed according to law.

8. Shall examine carefully all cases where evasions or violations of the laws of assessment and taxation of property or other objects or subjects of taxation are alleged, complained of, or discovered, and shall ascertain wherein existing laws are defective or are administered improperly or negligently.

9. Shall submit to the governor and the office of management and budget as prescribed by section 54-06-04 the biennial report of the commissioner and state board of equalization.

10. Shall visit other states and confer with taxing officials and attend tax or other economic conferences or conventions, in person or by his/her authorized agent.

11. Shall certify all levies, assessments, equalizations, or valuations made by him/her or the state board of equalization, not more than thirty days after the same have been made, or at periods otherwise provided by law.

12. Shall have the power to execute reciprocal agreements with the appropriate officials of any other state under which he/she may waive all or any part of the requirements imposed by the laws or statutes of this state upon those who use or consume in the state of North Dakota, gasoline, other motor vehicle fuel or special fuel upon which the tax has been paid to such other state; provided, that the officials of such other state grant the equivalent privileges with respect to gasoline, other motor vehicle fuel, or special fuel used in such other state upon which the tax has been paid to the state of North Dakota.

13. May maintain an accounting system which includes a special category of accounts designated as noncurrent accounts. Said noncurrent accounts shall be those accounts which are uncollectible as a matter of law or those accounts where all reasonable collection efforts over a period of six years have produced no results. After examination by the state auditor, and upon his/her recommendation for cause, specific accounts may be removed by the commissioner from noncurrent status and all records pertaining thereto immediately destroyed.

Specific duties assigned to the Office of State Tax Commissioner are set out in N.D.C.C. Title 57, and the general powers and duties in N.D.C.C. Section 57-01-02.

MAJOR GOALS AND OBJECTIVES OF THE TAX DEPARTMENT

The primary mission of the Tax Department is to collect tax revenue necessary to fund the operation of state and local government, through the uniform and fair administration of North Dakota's tax laws. Accomplishment of this mandate requires the pursuit and achievement of several distinct goals simultaneously.

The first goal, and one which is essential to effective tax administration, is to obtain voluntary compliance with the tax laws of the State by all taxpayers. Disseminating information about specific tax laws and general tax structure serves to foster compliance; well-informed citizens generally are willing to meet their obligations. The Tax Department issues rules and regulations, guidelines, and instructional booklets. In addition, public meetings are held, and taxpayers receive individual assistance through personal contact, the telephone, and correspondence.

A second goal is to enforce compliance by those who refuse to voluntarily submit tax returns and/or remit taxes due. Compliance activities are carried out by the Department's auditors, compliance officers, field tax inspectors, and tax collections officers, under the procedures set out in Title 57 of the North Dakota Century Code.

Recognizing that the quality of service an agency provides reflects the competence of its personnel, the third goal of the Tax Department is to employ highly qualified, capable men and women and to afford them opportunities for personal and professional growth within the organization.

The fourth goal is effective management of human resources. Within the framework of the Department's broad objectives, individuals are encouraged to apply creativity and initiative in the performance of their responsibilities. In this environment, employees strive to attain self-determined objectives, which results in greater productivity and contributes to organizational achievement.

As a fifth goal, the Tax Department is committed to fiscal responsibility in the use of funds provided by the Legislature. In its efforts to minimize costs while maximizing productivity and quality of taxpayer service, the Department relies on a management system which emphasizes the necessity of

realistic measurement of achievements and current reports of problems and progress in meeting the Department's objectives.

Specific goals, objectives, and accomplishments for the 1985-87 biennium will be addressed in the following pages which outline the Tax Department's organizational structure.

FUNCTIONS AND RESPONSIBILITIES OF THE TAX DEPARTMENT'S DIVISIONS

The Tax Department is comprised of six separate divisions. The Commissioner's Division is the administrative nucleus of the department. The Legal Division provides legal advice and counsel to the department and to the State Board of Equalization. The Controller's Division performs accounting functions, provides staff services and collects delinquent taxes. The Sales and Special Taxes Division, Income & Oil Taxes Division and Property Tax Division administer different state taxes under the direction of the Tax Commissioner. The following summaries provide more detailed explanations of the functions and operations of the Tax Department's divisions.

COMMISSIONER'S DIVISION

Two Tax Commissioners served the State of North Dakota during the 1985-87 biennium. On December 2, 1986, M. K. Heidi Heitkamp became the first woman to serve as the state's Tax Commissioner. She replaced Commissioner Kent Conrad, who resigned the Office following his election to the United States Senate.

The Commissioner's Division has ultimate responsibility for the general administration of the department. It also serves as the department's primary research center, coordinates its data processing needs, manages its personnel functions, and directs internal audits of the department.

Directing the division and the Tax Department itself is the Tax Commissioner, the chief administrator of the department and final arbiter of its policies. The commissioner also serves on several administrative boards related to the Tax Department. As secretary to the State Board of Equalization, which certifies tax assessments for public utilities whose properties lie within several taxing districts, the commissioner is responsible for determining the tentative valuation of those properties. The commissioner also oversees regular studies of real estate assessments done by the Tax Department, studies which the State Board of Equalization may use in equalizing property tax assessments between counties and taxing districts.

Further, the Tax Commissioner is a voting member of the Multistate Tax Commission, an organization which enhances, through the mutual cooperation of its member states, the ability of state revenue departments to enforce compliance with tax laws applying to multistate businesses. Tax Commissioner M. K. Heidi Heitkamp is a member of the Multistate Tax Commission and will serve as vice chair in the coming year. Commissioner Heitkamp also is a member of the Midwestern States Association of Tax Administrators and the National Association of Tax Administrators.

Augmenting the commissioner in determining department administrative policy is the Deputy Commissioner. The deputy oversees tax research, data processing coordination, internal audits, implementation of tax policies, development of criteria for effective management, and supervises finalization of tax forms, instructions, and rules and regulations. With the commissioner, the deputy has control over budgeting and fiscal decisions for the department. The deputy assists the commissioner by attending meetings and hearings as the department's liaison with other government and nongovernment organizations.

An integral arm of the Commissioner's Division is the Research and Statistics Section. This section is involved in the preparation of revenue projections and other fiscal analyses. When requested by the Legislative Council, it prepares estimates and projections of fiscal implications of all proposed tax legislation dealing with state revenues. The section also estimates the current and future fiscal impact of all administrative rulings proposed by the Tax Commissioner, maintains files of legislation affecting state finance, and develops and maintains statistics on state tax revenues to provide information and analyses to the commissioner. In addition to its work on revenue projections and fiscal

analyses, the Research and Statistics Section also prepares and publishes the biennial report of the Tax Commissioner, statistical reports, and comparative analyses of tax collections.

The workload of the Research and Statistics Section has expanded significantly in recent years, most notably in the areas of revenue projections and fiscal note preparation. Evolving into an ongoing process, revenue forecasting has assumed greater importance than ever before. Beginning in the 1981-83 biennium, with the depletion of the state's general fund, the policymakers demanded more information on the state's fiscal health. This need became even more critical during the 1983-85 biennium as the state's economic future continued to provoke grave concern. The importance of revenue forecasts became even greater in the 1985-87 biennium as North Dakota continued to experience the effects of a sagging economy and serious cash flow problems. Although the Office of Management and Budget has statutory responsibility for the state's official revenue forecasts, the Tax Department is asked to provide input and analyses. The official forecasts issued by the Office of Management and Budget assist the Legislature in finalizing the state budget for the succeeding biennium.

In addition to providing assistance to OMB in the preparation of revenue projections, the Tax Department is responsible for preparing fiscal notes on proposals which affect revenues resulting from the various taxes which the department administers. The responsibility for those fiscal note responses rests with the Research and Statistics Section. In addition to responses which must be prepared during the Legislative Session, the department prepares fiscal note information for the Interim Committee on Finance and Taxation and responds to requests for fiscal information from individual legislators, businesses, and other government agencies.

Another element of the Commissioner's Division is the Data Processing Section, which evaluates data processing requests, retains computer system documentation, and designs, tests, and implements new computer systems. This section also maintains current data processing systems and communicates with all users; develops and monitors physical security measures; reviews security methods and recommends security changes; and controls access to Internal Revenue Service and state data files; performs data entry input function; and coordinates mainframe computer processing of Tax Department data with the Central Data Processing Division.

The 1985-87 biennium was a period of significant achievements for the Data Processing Section. A long-range goal was reached with the installation of a local area network linking micro computers in the major divisions.

Conversion of the individual and corporate income tax systems to database was accomplished during the 1985-87 biennium. Several refinements were made to the sales tax system. Modifications were made to provide for the administration of city sales taxes adopted by Minot and Bismarck. Further refinements were incorporated to allow processing and collection of city restaurant and lodging taxes.

Also within the Commissioner's Division is Management and Planning and Personnel, which is responsible for recruitment of new employees, operation of the department's training program, and compliance with Equal Employment Opportunity regulations. Management Planning and Personnel also performs job audits and reviews position classifications, maintains employee records, and administers the department's wage and salary plan. Another of its responsibilities is to assist in department-wide planning by aiding each division in establishing objectives for management and determining criteria for the measurement of performance. Management Planning and Personnel also prepares written materials, maintains files, promotes security awareness and reviews department security measures to ensure the Tax Department complies with IRS requirements for safeguarding federally-provided tax information.

The Commissioner's Division also encompasses the department's internal auditing function. The internal auditor, who is supervised by the Deputy Tax Commissioner, conducts audits within the Tax Department to determine compliance with policies and procedures and to monitor the efficiency of all its divisions and sections. Subsequent to an audit, recommendations are offered to improve the operations and effectiveness of the department.

While it is not confined to the Commissioner's Division, another role within the Tax Department is to conduct studies assigned by the commissioner on matters and policies relating to tax administration.

Among studies and reports during the 1985-87 biennium was *State and Local Taxes in North Dakota; A Comparative Guide*. A new edition of *North Dakota: Where Taxes Work for People* will be published early in the next biennium.

The Tax Commissioner is the public official responsible for administering and implementing changes in tax laws and for issuing, administering and monitoring all policies, rules and regulations related to those laws. A major goal for the 1987-89 biennium is to ensure that the new tax laws and the amendments to existing laws are carried out smoothly.

The Commissioner's Division in the 1985-87 biennium was comprised of 20 full-time positions which include the Tax Commissioner and Deputy Commissioner; an administrative officer; a personnel director and personnel assistant; two research analysts; a research technician; an internal auditor; three data processing coordinators; a data input supervisor; five data input operators; and two secretaries.

LEGAL DIVISION

The Legal Division provides legal advice and counsel to all divisions within the Tax Department and to the State Board of Equalization. The division's attorneys respond to inquiries by the Tax Commissioner, legislators, officials and citizens and prepare opinions on tax questions. They also assist in reviewing and drafting department administrative rules pursuant to the provisions of the Administrative Agencies Practice Act and are responsible for these rules being submitted to the Attorney General for approval and being filed with the Legislative Council.

During the North Dakota legislative session, the legal staff develops and drafts bills for the Tax Commissioner to be presented for consideration by the Legislature. At the end of the legislative session, the legal staff may interpret new or amended laws to aid the department in implementing those laws or assist the commissioner in issuing rules, regulations or policies regarding them.

Other responsibilities of the legal staff are to conduct formal hearings before the commissioner or his designated representative when requested by taxpayers, to prepare written decisions for the commissioner, and to represent the Tax Department and the State Board of Equalization in litigation brought by or against either the department or the board.

During the 1985-87 biennium the Legal Division included seven full-time positions: five attorneys, a legal assistant, and an administrative secretary. The division handled 45 court cases for the Tax Department or the State Board of Equalization. In addition, the Tax Department, on the average, files approximately 20 legal cases a month against delinquent taxpayers.

CONTROLLER'S DIVISION

The Controller's Division of the Tax Department consists of three sections: Accounting, Accounts Receivable and Staff Services.

Acting as the department's center for business transactions, the Accounting Section prepares the Tax Department's executive budget request and assists with biennial revenue estimates. This section also prepares the department's internal budget, analyzes and forecasts expenditures, and monitors and reports on budget performance. All tax payments made to the department are processed and recorded by this section, which also prepares reports and financial statements for management information and auditing purposes. All records maintained by the Accounting Section are subject to audits by the State Auditor's Office. After the audit of the Tax Department for fiscal years 1985 and 1986, the audit team indicated that they had no formal recommendations for change and, once again, gave the Tax Department an unqualified opinion.

The Accounts Receivable Section is responsible for collecting delinquent taxes. Delinquent accounts are referred to this section for collection by the division of the Tax Department responsible for administering the tax. Established procedures used for the collection of delinquent taxes include telephone and written communication with taxpayers and the mailing of final notices requesting payment of taxes. If necessary, this section may resort to civil or criminal legal action. It is the policy of the Accounts Receivable Section to initiate legal action only in those cases in which the taxpayer

fails to respond to collection attempts. Taxpayers are always given ample notice and opportunity to comply with requests for payment of taxes.

The Staff Services Section provides support services for the department. The mailroom receives and fills orders for tax forms, and receives, opens, and initially processes tax returns; the central word processing unit provides a typing and transcription service for all areas of the department, and produces camera-ready copy for tax forms and other printed materials; the central records repository provides a document control system to house tax records and ensure confidentiality of taxpayer information. Centralizing these functions within the Controller's Division increases efficiency in the operation of the entire Tax Department.

In the 1983-85 biennium, the Controller's Division included 31 full-time positions. Those positions include the controller, one accountant, one auditor, five tax collection officers, a tax collection supervisor, three account technicians, three information processing operators, one information processing coordinator, one secretary and 14 clerks.

SALES AND SPECIAL TAXES DIVISION

The Sales and Special Taxes Division includes three sections: Sales and Use Tax, Motor Fuels and Miscellaneous Taxes, and Estate Tax.

Administering the sales tax is the principal function of the Sales and Use Tax Section, which monitors compliance with the sales tax law and conducts field audits. This section issues sales tax permits, revokes permits of those delinquent in reporting sales, and cancels permits issued to businesses which are no longer operating. When sales tax returns are filed, data from those returns is entered at the Tax Department and processed by computer at Central Data Processing. The section may grant or deny taxpayer requests for exemptions; conduct hearings and negotiate settlements; issue administrative tax rulings; provide guidelines, rules and regulations for retailers and other taxpayers; review compliance with sales and use tax regulations in out-of-state purchases; and inform the public of laws pertaining to sales and use taxes.

During the biennium, the Sales and Use Tax Compliance Section implemented the collection of city sales taxes in Minot and Bismarck. It also remained responsible for administration of city sales taxes in Grand Forks which implemented the local tax on January 1, 1985.

In the 1985-87 biennium the sales and use tax rates were adjusted according to legislation enacted during the Special Legislative Session held in December of 1986. Effective January 1, 1987, the general sales and use tax rate was increased from 4% to 5% and the on- and off-sale liquor tax rate was increased from 5% to 6%. Also, the tax rate on farm machinery repair parts was reduced from 4% to 3%. Farm machinery, irrigation equipment, and new mobile home sales were subject to a sales tax rate of 3% which was not increased during the 1985-87 biennium.

In the 1985-87 biennium, the Sales and Use Tax Section conducted 1,236 field audits of both in-state and out-of-state establishments doing business in North Dakota. Those audits resulted in additional sales tax assessments of $12.6 million. Actual settlements of audits totaled $9.5 million for the biennium. In total, 47,358 man hours were involved in the sales tax field audits for the 1985-87 biennium. Based on settlements, the return per audit man hour was $200. The Sales and Use Tax Section also conducts motor fuels tax audits and motor vehicle excise tax audits. In addition, the field auditors provide income tax assistance throughout the state during the income tax season.

A second arm of the Sales and Special Taxes Division, the Motor Fuels and Miscellaneous Tax Section, is responsible for administering, collecting and auditing fuel taxes, special taxes and miscellaneous taxes.

North Dakota imposes a motor fuels tax on all sales of gasoline. During the 1985-87 biennium, the tax was 13 cents per gallon. There is also a special fuels tax on certain other motor fuels, primarily diesel fuel. For the 1985-87 biennium, the special fuels tax was 13 cents per gallon if it was for use in licensed vehicles or if sold to public contractors performing public-funded contracts. If the special fuels are sold for heating, agricultural, industrial or railroad purposes, the special fuels tax is 2% percent of the purchase price of those fuels. Licensed dealers of gasoline and other motor fuels remit motor fuels taxes, on a monthly basis, to the Motor Fuels and Miscellaneous Tax Section.

This section also administers the motor fuels tax refund program. The refunds apply only to the gasoline tax and to special fuels taxes. Refunds are granted only to certain consumers, namely political subdivisions, farmers, and industrial users who use the fuel for off-highway purposes.

Other fuel taxes administered by this section include an importers-for-use tax collected quarterly from persons importing gasoline or diesel fuel from other states for use in North Dakota, and an aviation fuel tax levied on all sales of aviation gasoline and jet motor fuel. This section also administers the aviation fuel tax refund program.

In addition to fuels taxes, the Motor Fuels and Miscellaneous Tax Section administers several miscellaneous taxes: a copyright tax on gross receipts from all sales, licenses and other depositions of performing rights of music; and a tobacco products tax.

Other functions of this section include interpreting tax regulations and issuing administrative rules; reviewing, issuing and revoking licenses and permits, and responding to taxpayer questions. The Motor Fuels and Miscellaneous Tax Section also requests and reviews field audits by the sales tax field audit staff to determine compliance with tax laws for which it is responsible.

The third arm of the Sales and Special Taxes Division is the Estate Tax Section, which supervises North Dakota's tax on property transferred upon death. Major revisions to North Dakota's estate tax law by the 1979 Legislature considerably eased the complexities faced by this section. Under that legislation, which took effect March 16, 1979, North Dakota's estate tax is entirely contingent on credits which the federal government allows on federal estate taxes. Specifically, the federal government allows a credit for state estate taxes paid, a credit which is applied against the federal estate tax. North Dakota law now provides that its state estate tax will be equal to but no more than the credit allowed on federal estate tax returns. In other words, the estate will pay no more in North Dakota estate tax than it would otherwise pay in additional taxes to the federal government.

Under the revised law, the attorney for the estate is required to give the Estate Tax Section a copy of the federal estate tax return, which is verified to assure the federal credit is properly computed. The section also maintains estate tax records, and informs the public about estate tax laws, policies and procedures.

In the 1985-87 biennium there were 44 full-time positions in the Sales and Special Taxes Division. These included the sales and special taxes director, the supervisor of motor fuels and miscellaneous taxes, field audit supervisor, estate tax supervisor, four compliance officers, two field tax inspectors, 18 auditors, one administrative secretary, and 15 clerks.

INCOME AND OIL TAXES DIVISION

The Income and Oil Taxes Division is responsible for administering the following principal taxes: the state's corporate and individual income taxes, the privilege tax on certain financial institutions, the oil and natural gas gross production tax and the oil extraction tax

The division is comprised of three sections: Corporate Income Tax, Oil and Gas Taxes, and Individual Income Tax. Basically, the responsibilities of the Income and Oil Taxes Division are those common to most operating areas of tax administration. Sections receive and process tax returns, perform audits, conduct cross-checks of federal tax returns with state returns and use other investigative means to identify nonfilers, investigate reasons for nonfiling, and enforce filing requirements. Each section also promulgates tax rules and regulations, issues administrative tax rulings, recommends tax law changes, redesigns tax forms and revises instructions to taxpayers to comply with statutory changes, and monitors litigation.

Taxpayer assistance is also provided by each section. A statewide toll-free telephone service is provided to answer questions and assist taxpayers. Tax clinics are conducted to provide information on policy and legal changes affecting tax forms and filing requirements.

In the 1985-87 biennium, the Corporate Income Tax Section was responsible for administering the state's income tax imposed on all corporations doing business in North Dakota. It also administered

the state's business privilege tax, as it applied to all banks, trust companies, and building and loan associations doing business in the state. Further, it was responsible for administering a separate privilege tax, imposed in lieu of a state income tax, on all banks, trust companies, and building and loans doing business in the state.

The Corporate Income Tax Section conducts in-office and/or field audits of all corporations. Historically, however, the primary emphasis for field audits has been placed on the large multinational corporations doing business in the state. Because field audits are very time consuming and the size of the section's staff limits the number of audits which it can reasonably conduct, the Corporate Income Tax Section relies, in part, on a program of cooperation with the Multistate Tax Commission to perform field audits.

In the 1985-87 biennium, the Section's auditing staff conducted 54 corporate income tax field audits, nearly all of them on out-of-state corporations doing business in North Dakota. Those audits resulted in over $22.5 million in additional assessments.

Also in the 1985-87 biennium, field audits conducted by the Multistate Tax Commission resulted in $1.0 million in additional assessments for North Dakota. The state's cost for those audits was $162,000.

The present Oil and Gas Taxes Section had its beginning in June of 1980, with two full-time audit positions in the Sales and Special Taxes Division being assigned responsibility for oil and gas tax audits. Two additional full-time audit positions were authorized for the 1981-83 biennium and the first field audits were conducted. On July 1, 1981, the oil and gas taxes audit function was shifted to the Income Tax Division and assigned to the Corporate Income Tax Section. As the importance of oil and gas taxes grew, the number of audit positions in that area of responsibility also increased. Five additional auditors were authorized for the 1983-85 biennium; four of the positions emanating from the executive budget request, and one as a component of the "Fair Share" program. The expansion of oil and gas taxes audit function led to the creation of a separate and distinct section effective July 1, 1983 and increased to three the number of sections in the Income and Oil Taxes Division. During the 1985-87 biennium, oil and gas tax assessments resulting from office and field audits as well as cross-checks and compliance reviews exceeded $23.3 million.

The Oil and Gas Taxes Section performs in-office and field audits of oil and gas companies which conduct business in the state. During the 1985-87 biennium, the auditing staff initiated 44 gross production and oil extraction tax audits that resulted in assessments of $19.9 million.

During the biennium, collections from office and field audits as well as cross-checks and compliance reviews totaled $7.3 million.

The Individual Income Tax Section, in the 1985-87 biennium, was responsible for administering the state's income tax on individuals, estates and trusts.

Data from all individual and fiduciary income tax returns is entered at the Tax Department and processed at Central Data Processing. The computers generate calculation worksheets which identify any returns requiring additional attention. Returns are reviewed, claims for refunds are verified and additional taxes due are computed and assessed.

The Individual Income Tax Section also performs in-office and field audits. Most audits conducted by this section are in-office, although field audits of employers' records are also conducted to monitor compliance with the state income tax withholding law. Federal audits and in-office audits conducted by this section in the 1985-87 biennium netted more than $4.1 million in additional assessments for individual income taxes.

In the 1985-87 biennium, the staff of the Income and Oil Taxes Division included 44 full-time positions: an income and oil taxes director, a corporate income tax supervisor, an oil and gas taxes supervisor, an individual income tax supervisor, 2 compliance officers, 26 auditors, 4 audit technicians, a criminal investigation agent, an administrative secretary and 6 clerks.

PROPERTY AND UTILITY TAXES DIVISION

The property tax is an important source of revenue for financing school districts, and county, city, and township government. While local government units have the responsibility of assessing and taxing all classes of real property, the State Tax Department provides assistance to local government units to assure that the property tax is administered equitably throughout the state.

The Property and Utility Taxes Division, under the direction of the State Supervisor of Assessments, works with local government to maintain equalization of property assessments among the various counties in North Dakota. To assure property tax equalization, the division performs annual sales ratio studies, which compare true and full value of real estate with the sale price of properties which have been sold. If significant assessment variations exist between counties, steps are taken by the State Board of Equalization to equalize those assessments. In addition, personnel from the division investigate individual assessments for the board and make detailed appraisals of complex properties when the owners of those properties have appeared before the State Board requesting a review.

The Homestead Credit and Renter Refund Program is also administered by the Property and Utility Taxes Division. Under this state-funded program, qualifying senior citizens and totally and permanently disabled persons receive a reduction of their property tax assessment or a partial refund of annual rent paid. The total amount of revenue lost to the counties by this reduction is reimbursed to them from the state general fund. Credits are allowed not only against real property tax assessments but against special assessments as well. Credits allowed for special assessments become a lien on the property. The division has the responsibility for monitoring the liens and for providing a release whenever the liens are satisfied.

With the repeal of the personal property tax in 1969, a source of local revenue was lost. To offset that loss, replacement moneys from the state general fund are appropriated by the Legislature for distribution among the various political subdivisions, excepting schools. This personal property tax reimbursement program is administered by the Property and Utility Taxes Division.

The division also conducts seminars for local government officials to improve administration of the property tax and holds property tax appraisal schools for assessors and other local tax officials. Tax statutes are interpreted, legal questions are reviewed and analyzed, and information concerning changes in law or policy affecting property taxation is disseminated. The division acts as the liaison between local property tax administrators and state officials. While it does not directly administer the property tax, the division functions as a statistical and informational resource center of communications between all levels of government to maintain efficiency, promote uniformity, and achieve equalization within the property tax system. The change in legislative philosophy regarding budgetary control of local taxing districts makes it necessary that the Property and Utility Taxes Division develop maximum levy worksheets for use by the county auditors in determining the total dollar levy allowed each taxing district. Workshops conducted by division personnel provide county auditors with first-hand knowledge of the new procedures that they must use.

Assisting the Tax Commissioner and the State Board of Equalization in making valuations of utility property for property tax purposes is the Utilities Tax Section. Most real property is assessed by local government. However, the property of railroads, airlines, and public utilities such as electric and gas companies, and telephone companies, is assessed at the state level. After the Utilities Tax Section has completed its tentative valuations, the State Board of Equalization sets the final assessed valuations.

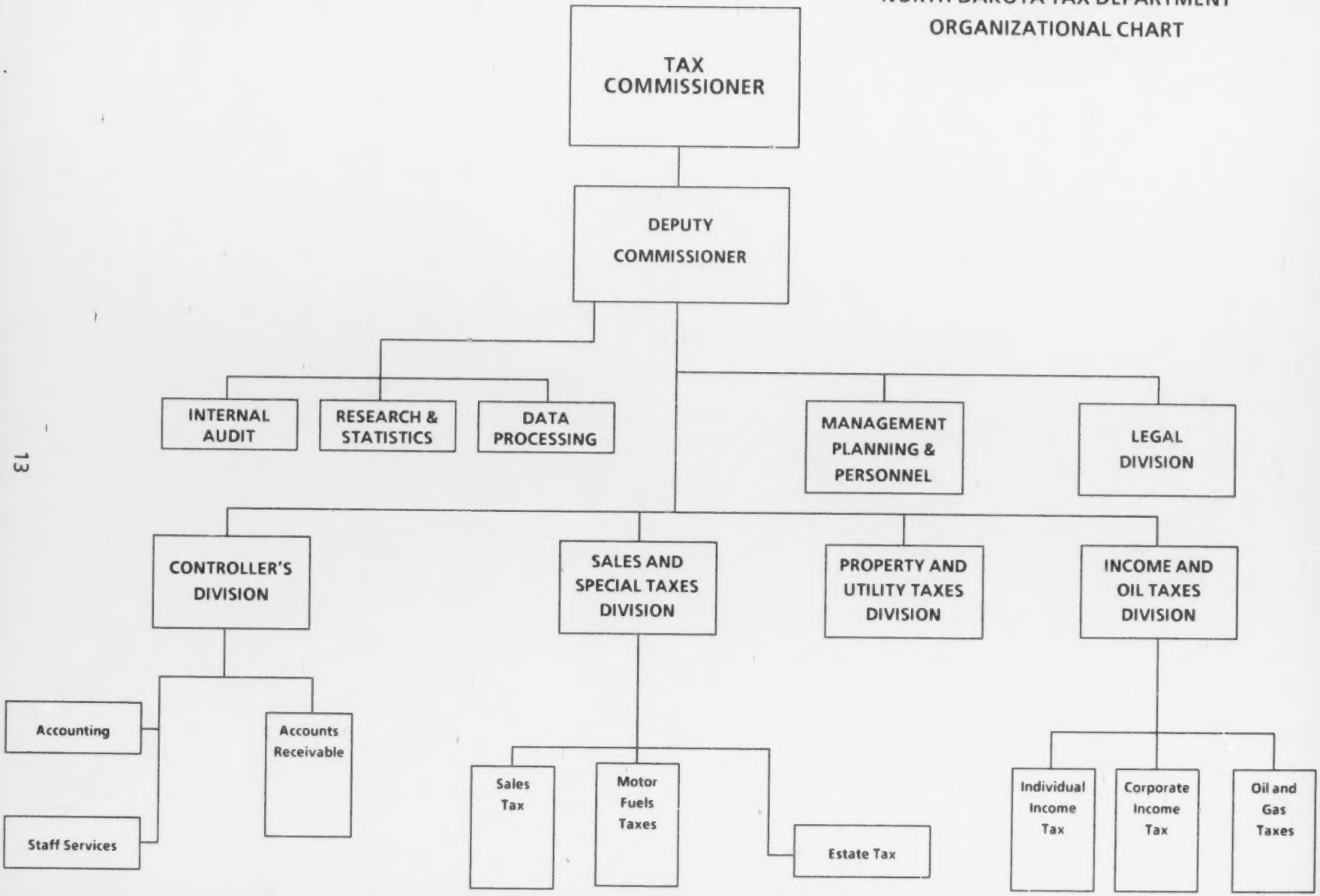
The section then certifies to each county auditor the value placed on the utility property located within that county, and the tax is administered and collected by the local governments.

Another responsibility of the Utilities Tax Section is administering the state severance tax on coal and the coal conversion privilege tax on electrical generating plants and coal gasification plants. The section audits reports of collections of these energy-related taxes. The Utilities Tax Section also prepares reports on the collection of these taxes and information for revenue distribution by the State Treasurer's Office, which is responsible for allocating revenue from these taxes among the state, the producing counties, and a permanent Coal Development Trust Fund.

The Property and Utilities Taxes Division annually certifies to county directors of tax equalization in each of the state's 53 counties the average true and full agricultural value of farmland, as determined by North Dakota State University. It is this value on which the counties base their assessments of agricultural property.

The staff of the Property and Utility Taxes Division, in the 1985-87 biennium, included six full-time positions: the state supervisor of assessments, a deputy supervisor, a property tax appraiser, a utility tax appraiser and two clerks.

NORTH DAKOTA TAX DEPARTMENT
ORGANIZATIONAL CHART



FUTURE DIRECTIONS: CHANGES IN THE 1987-89 BIENNIUM
Tax Legislation Enacted During the December 1986 Special Legislative Session and the 1987 Legislative Session

Legislation enacted during the December 1986 Special Legislative Session and the 1987 Legislative Session will have a significant impact on the administration of some of North Dakota's principal taxes during the 1987-89 biennium and in the years beyond. The following summaries address the major tax legislation enacted by the legislature.

INDIVIDUAL INCOME TAX:

Tax Legislation Enacted During the 1986 Special Legislative Session

- The tax rate on Form 37-S (short form) was increased from 10.5% to 14% of the adjusted federal income tax liability.

- Form 37 (long form) tax rates were increased 33.3%. The lowest rate increased from 2% to 2.67% on North Dakota taxable income up to and including $3,000, and the highest rate increased from 9% to 12% on North Dakota taxable income over $50,000.

- Provisions requiring general income tax withholding and the filing of declarations of estimated income tax were passed.

Tax Legislation Enacted During the 1987 Legislative Session

- A 10% surtax on the individual's state income tax liability is due for the 1987 tax year only.

- A tax credit is allowed for employing developmentally disabled or chronically mentally ill persons. The amount of the credit is limited to 5% of up to $6,000 in wages paid during the first twelve months of employment, not to exceed 50% of the taxpayer's income tax liability.

- A limited income tax credit and an unlimited dividend exclusion are allowed for investing in the Myron G. Nelson Fund, Incorporated, a venture capital corporation.

- For all tax years beginning after December 31, 1987, a taxpayer can make an optional contribution of $1 or more to a nongame wildlife fund by designating the amount on the North Dakota income tax return.

- The federal interest rate for underpayments of federal income tax in effect during the quarter in which the state tax return was due is the applicable interest rate for state income tax purposes.

CORPORATE INCOME TAX:

Tax Legislation Enacted During the 1987 Legislative Session

- Legislation was enacted providing for a tax credit of 5% of up to $6,000 in wages paid during the first twelve months of employment for each developmentally disabled or chronically mentally ill employee.

- The federal interest rate for underpayments of federal income tax in effect during the quarter in which the state tax return was due is the applicable interest rate for state income tax purposes.

- For taxable years beginning after December 31, 1987, a credit is available for research and experimental expenditures incurred within North Dakota.

- A limited income tax credit and an unlimited dividend exclusion are allowed for investing in the Myron G. Nelson Fund, Incorporated, a venture capital corporation.

- For taxable years beginning after December 31, 1988, certain taxpayers may elect the "water's edge" method of apportioning income.

OIL AND GAS TAXES:

Tax Legislation Enacted During the 1987 Legislative Session

- Oil produced from wells drilled and completed after April 27, 1987 is exempt from the oil extraction tax during the first 15 months following the date of well completion. After the 15 month exemption period the oil produced from the qualifying new well is subject to a reduced oil extraction tax rate of 4%. Also, the 4% tax rate applies to oil produced from a well in a qualifying secondary or tertiary recovery project. However, if the average price of a barrel of crude oil, as defined in the statute, is $33 or more between June 1 and October 31 of any year, the reduced tax rate of 4% returns to 6.5% and the new well exemption is eliminated.

- The definition of stripper wells eligible for an oil extraction tax exemption was expanded to include:
  (1) wells producing over 10, but no more than 15 barrels of oil per day from a depth of more than 6,000 feet, and

  (2) wells producing over 15, but not more than 20 barrels of oil per day from a depth of more than 10,000 feet.

- Effective July 1, 1987 the oil extraction tax exemption for the private royalty interest was eliminated.

SALES AND SPECIAL TAXES:

Tax Legislation Enacted During the 1986 Special Legislative Session

- Effective January 1, 1987, the sales and use tax rates were modified as follows:

  (1) The general sales and use tax rate was increased from 4% to 5%.

  (2) The tax rate applied to on- and off-sale liquor sales was increased from 5% to 6%.

  (3) The tax rate on farm machinery repair parts was reduced from 4% to 3%.

- The motor vehicle excise tax was increased on January 1, 1987, from 4% to 5%.

Tax Legislation Enacted During the 1987 Legislative Session

- Effective for the 1987-89 biennium, the sales and use tax rates were increased by one-half percent as follows:

  (1) The general sales and use tax rate was increased from 5% to 5.5%.

  (2) The tax rate applied to on- and off-sale liquor sales was increased from 6% to 6.5%.

(3) The tax rate applied to farm machinery, farm machinery repair parts, irrigation equipment, and new mobile home sales was increased from 3% to 3.5%.

- The motor vehicle excise tax was also increased for the 1987-89 biennium from 5% to 5.5%.

- Effective July 1, 1987 the cigarette tax was increased from 18 to 27 cents per package. The tax on other tobacco products was increased from 11% to 20% of the wholesale cost of these products.

- Fuel taxes on gasoline, diesel fuel, propane and other fuels were increased from 13 to 17 cents per gallon.

COAL CONVERSION TAX:

Tax Legislation Enacted During the 1987 Legislative Session

- Production of synthetic natural gas in excess of 110 million cubic feet per day was exempted from the tax.

- Revenue derived from the sale of byproducts produced during the coal gasification process, up to a maximum of 20% of gross receipts, was exempted from the tax.

- The tax rate on coal gasification plants was reduced to the greater of 7 cents per 1000 cubic feet of synthetic natural gas produced for sale or 2. 5% of gross receipts.

- All conversion facilities other than electrical generating plants were exempted from 65% of the tax for five years from the date of the first production.

- The tax rate for electrical generating plants was changed to .25 mill times 60% of installed capacity times the number of hours in the taxable period plus .25 mill on each kilowatt hour of electricity produced for sale.

COAL SEVERANCE TAX:

Tax Legislation Enacted During the 1987 Legislative Session

- The tax rate was reduced to 75 cents per taxable ton with an additional tax of 2 cents per ton to be deposited in the Lignite Research Fund.

- Distribution of the tax was changed to 15% to the Trust Fund, 35% to counties, and 50% to the State General Fund.

NORTH DAKOTA STATE TAX DEPARTMENT
COMPARATIVE STATEMENT OF NET COLLECTIONS
FOR THE 1983-85 BIENNIUM AND THE 1985-87 BIENNIUM

TAX TYPE	1983-85 BIENNIUM	1985-87 BIENNIUM	NET INCREASE OR DECREASE DOLLARS	PERCENT
Sales and Use Taxes	$387,130,965	$372,221,208	$-14,909,757	-3.9%
Oil Extraction Tax	169,272,014	97,554,493	-71,717,521	-42.4%
Oil & Gas Gross Production Tax	158,136,213	91,565,561	-66,570,652	-42.1%
Motor Fuels Taxes	119,356,093	110,398,138	-8,957,955	-7.5%
Individual Income Tax	150,132,803	153,518,603	3,385,800	2.3%
Corporation Income Tax	125,395,170	84,382,294	-41,012,876	-32.7%
Coal Taxes	70,443,368	73,908,609	3,465,241	4.9%
All Other Taxes and Fees	38,580,356	50,622,875	12,042,519	31.2%
Total Net Collections	$1,218,446,982	$1,034,171,781	$-184,275,201	-15.1%

SALES AND USE TAXES: The decrease in collections in the sales and use tax category is due to a declining level of economic activity in the 1985-87 biennium and a one-time positive revenue impact in the 1983-85 biennium which was caused by the implementation of monthly estimated payments. (This tax category includes the sales and use tax, motor vehicle excise tax, and the aircraft excise tax.)

OIL EXTRACTION TAX AND OIL AND GAS GROSS PRODUCTION TAX: The decrease in oil tax revenue is primarily due to the world-wide oil price collapse of 1986 which significantly reduced the value of oil produced in North Dakota. The lower oil price also reduced the amount of well drilling activity and subsequent new oil production. Also, the collection total in the 1985-87 biennium was lower than the prior biennium because of a one-time positive revenue impact in the 1983-85 biennium which was caused by the implementation of monthly returns.

MOTOR FUELS TAXES: The decrease in fuel tax revenue is primarily due to an eight cent rate reduction allowed during the 1985-87 biennium for gasoline blended with ethanol produced in North Dakota. (This tax category includes the motor vehicle fuel and special fuels taxes.)

INDIVIDUAL INCOME TAX: The increase in individual income tax collections is due to the implementation of legislation enacted during the December 1986 Special Legislative Session which requires general withholding and mandatory declarations of estimated income tax.

CORPORATION INCOME TAX: The collection decline in corporate income tax revenue is due to reduced levels of corporate income in the 1985-87 biennium. The decline is also due to a one-time positive revenue impact in the 1983-85 biennium which was caused by the implementation of quarterly declarations of estimated tax liability.

COAL TAXES: The increase in this category is due to increased coal production. (This tax category includes the coal severance tax and the coal conversion tax.)

ALL OTHER TAXES AND FEES: The increase in this tax category is due to the growing number of cities which have enacted a city sales tax to be administered by the North Dakota Tax Department. (This tax category includes the cigarette tax, tobacco tax, estate tax, business and corporation privilege tax, Vietnam bonus surtax, transmission lines tax, motor vehicle excise tax (MVF share), city sales tax, city lodging tax, music and composition tax, sales and use tax and motor fuel tax bonds, motor fuel license fees, and miscellaneous remittances.)

NORTH DAKOTA STATE TAX DEPARTMENT
STATEMENT OF COLLECTION DATA
1985-87 BIENNIUM

Description	FISCAL YEAR 1986 Gross Collections	FISCAL YEAR 1986 Refunds	FISCAL YEAR 1986 Net Collections	FISCAL YEAR 1987 Gross Collections	FISCAL YEAR 1987 Refunds	FISCAL YEAR 1987 Net Collections	1985-87 BIENNIUM NET TOTAL
Sales & Use Tax	$153,668,062.46	$536,423.84	$153,131,638.62	$171,943,294.85	$504,581.34	$171,438,713.51	$324,570,352.13
Aircraft Excise Tax	190,413.68	.00	190,413.68	184,208.12	.00	184,208.12	374,621.80
Motor Vehicle Use Tax (GF)	1,378,670.53	.00	1,378,670.53	1,643,646.09	.00	1,643,646.09	3,022,316.62
Motor Vehicle Excise Tax	20,426,257.66	.00	20,426,257.66	23,827,658.63	.00	23,827,658.63	44,253,916.29
City Lodging Tax	624,793.19	1,431.45	623,361.74	615,228.40	368.34	614,860.06	1,238,221.80
City Sales Tax	3,476,102.08	579.39	3,475,522.69	9,572,294.03	1,307.22	9,570,986.81	13,046,509.50
Individual Income Tax	83,418,114.10	10,050,000.00 *	73,368,114.10	90,150,489.11	10,000,000.00 *	80,150,489.11	153,518,603.21
Corporate Income Tax	61,910,872.21	8,400,000.00 *	53,510,872.21	46,746,421.51	15,875,000.00 *	30,871,421.51	84,382,293.72
Business & Corp. Privilege Tax	2,301,172.86	.00	2,301,172.86	2,570,985.90	.00	2,570,985.90	4,872,158.76
Cigarette Tax (Cities)	1,924,546.08	104.02	1,924,442.06	1,818,589.02	1,920.42	1,816,668.60	3,741,110.66
Cigarette Tax (GF)	9,622,728.26	520.13	9,622,208.13	9,100,888.41	9,602.03	9,091,286.38	18,713,494.51
Tobacco Tax	338,916.08	.00	338,916.08	355,511.59	6,678.53	348,833.06	687,749.14
Oil & Gas Gross Production Tax	57,475,266.34	266,611.99	57,208,654.35	34,438,317.76	81,410.61	34,356,907.15	91,565,561.50
Oil Extraction Tax	62,687,131.76	121,617.64	62,565,514.12	35,047,349.10	58,370.37	34,988,978.73	97,554,492.85
Motor Vehicle Use Tax (MVF)	1,378,670.59	.00	1,378,670.59	1,643,646.15	.00	1,643,646.15	3,022,316.74
Estate Tax	2,309,773.81	.00	2,309,773.81	1,931,916.42	.00	1,931,916.42	4,241,690.23
Miscellaneous Remittances	1,059.87	.00	1,059.87	7,065.85	5,670.36	1,395.49	2,455.36
Coal Severance Tax	26,809,409.88	.00	26,809,409.88	26,323,200.58	.00	26,323,200.58	53,132,610.46
Coal Conversion Tax	10,887,980.28	.00	10,887,980.28	9,888,017.83	.00	9,888,017.83	20,775,998.11
Transmission Line Tax	415,435.50	.00	415,435.50	416,225.25	.00	416,225.25	831,660.75
Music and Composition Tax	56,180.55	.00	56,180.55	27,129.35	.00	27,129.35	83,309.90
Sales & Use Cash Bonds	159,200.00	34,700.00	124,500.00	89,500.00	80,390.00	9,110.00	133,610.00
Fuel Dealers Fee	1,109.00	.00	1,109.00	10,980.00	.00	10,980.00	12,089.00
Motor Vehicle Fuel Tax	41,319,130.00	4,242,491.08 *	37,076,638.92	41,677,982.94	3,575,000.00 *	38,102,982.94	75,179,621.86
Special Fuel Tax	19,243,600.24	944,734.73 *	18,298,865.51	18,024,650.81	1,105,000.00 *	16,919,650.81	35,203,516.32
Motor Fuel Tax - Cash Bond Fund	.00	.00	.00	.00	3,500.00	-3,500.00	-3,500.00
Vietnam Bonus Surtax	.00	.00	.00	.00	.00	.00	.00
TOTAL COLLECTIONS	**$562,024,597.01**	**$24,599,214.27**	**$537,425,382.74**	**$528,055,197.70**	**$31,308,799.22**	**$496,746,398.48**	**$1,034,171,781.22**

* Represents amounts transferred to refund reserve accounts - not actual refunds

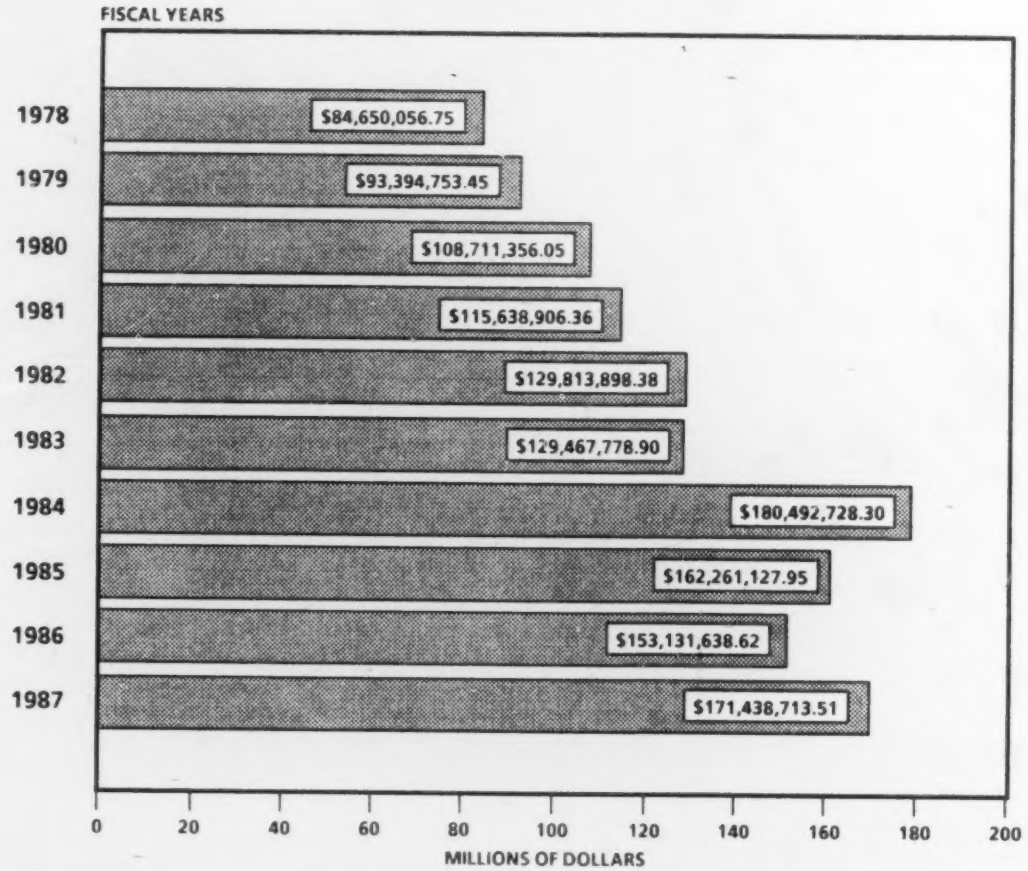
NORTH DAKOTA STATE TAX DEPARTMENT
NET COLLECTIONS
FOR THE FISCAL YEARS ENDED JUNE 30, 1978 TO 1987

TAX TYPE	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987
Sales and Use Taxes (1)	$96,256,411	$107,666,219	$122,356,941	$128,062,740	$144,610,307	$145,127,448	$201,875,626	$185,255,339	$175,126,981	$197,094,227
Oil Extraction Tax (2)				23,651,815	89,141,246	86,952,446	91,472,873	77,799,141	62,565,514	34,988,979
Gross Production Tax	10,722,966	13,419,323	29,601,845	63,754,409	79,794,487	79,715,144	85,122,189	73,014,024	57,208,654	34,356,907
Motor Fuels Taxes (3)	36,440,474	38,534,093	39,591,381	38,152,757	42,376,870	41,716,686	60,056,478	59,499,615	55,375,504	55,022,634
Individual Income Tax	69,171,352	48,915,408	53,344,055	62,415,467	35,341,066	35,135,877	73,951,170	76,181,633	73,368,114	80,150,489
Corporation Income Tax	13,191,292	17,523,990	25,952,199	29,752,172	32,021,771	29,069,064	42,260,589	83,134,581	53,510,872	30,871,422
Coal Taxes (4)	9,774,059	14,207,621	17,154,370	18,866,574	21,125,945	21,449,096	32,401,682	38,041,686	37,697,390	36,211,219
All Other Taxes and Fees (5)	21,338,870	23,520,647	24,215,469	24,975,128	20,408,916	16,579,930	19,256,229	19,324,127	22,572,354	28,050,521
Total Net Collections	**$256,895,424**	**$263,787,301**	**$312,216,260**	**$389,631,062**	**$464,820,608**	**$455,745,691**	**$606,396,836**	**$612,250,146**	**$537,425,383**	**$496,746,398**

(1) Includes sales and use tax, motor vehicle excise tax, and aircraft excise tax.
(2) The oil extraction tax went into effect on January 1, 1981.
(3) Includes motor vehicle fuel and special fuel taxes.
(4) Includes coal severance tax and coal conversion facilities privilege tax.
(5) Includes cigarette tax, tobacco tax, estate tax, business and corporation privilege tax, Vietnam bonus surtax, transmission lines tax, motor vehicle excise tax (MVF share), city sales tax, city lodging tax, music and composition tax, sales and use tax and motor fuel tax cash bonds, motor fuel license fees, and miscellaneous remittances.

SOURCE: Comparative Statement of Collections, North Dakota State Tax Department.

NORTH DAKOTA STATE TAX DEPARTMENT
SALES AND USE TAX NET GENERAL FUND COLLECTIONS
DURING FISCAL YEARS ENDED JUNE 30, 1978 TO 1987



On July 1, 1981, sales of water and used mobile homes were exempted from the sales tax; and the tax on new mobile homes was reduced from 3% to 2%.

On April 1, 1983, the general sales and use tax was increased from 3% to 4%; the tax rate on new mobile homes, farm machinery and irrigation equipment was increased from 2% to 3%; and the tax on liquor sales was increased from 3% to 5%. These law changes served to increase fiscal year 1984 and 1985 collections.

Effective July 1, 1983 a business with taxable sales greater than $333,000 in the preceding calendar year must make three separate monthly estimated payments prior to filing the quarterly return which is then used to reconcile deposits with total sales tax due for the quarter. The one-time positive revenue impact associated with the implementation of the monthly estimated payment schedule caused fiscal year 1984 collections to be greater than fiscal year 1985 collections.

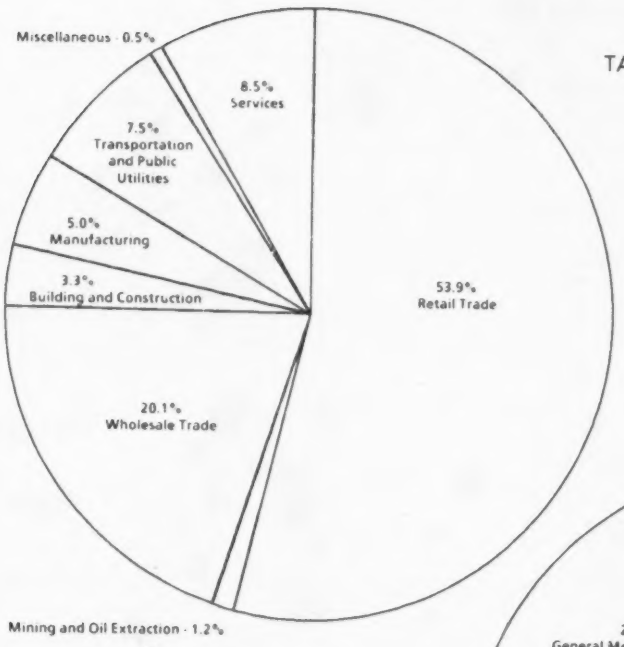
For taxable sales and purchases made after July 1,1985, those businesses previously required to make monthly estimated payments were required to file monthly returns. Businesses required to file monthly returns continue to be allowed a deduction for administrative expenses of 1.5% of the tax up to a maximum of $83.33 per month. The monthly filing deadline was moved from the 22nd day in the month following the sales month to the last day of the month following the sales month. However, the monthly filing due date for the May 1987 sales month remained on the 22nd day of June.

Effective July 1, 1985, the exemption for candy, chewing gum, and carbonated beverages was repealed, and the sale of these items became subject to the 4% sales tax.

On January 1, 1987, the general sales and use tax rate was increased from 4% to 5%; the tax rate on liquor sales was increased from 5% to 6%; and the tax rate on farm machinery repair parts was reduced from 4% to 3%.

NORTH DAKOTA STATE TAX DEPARTMENT
TAXABLE SALES AND TAXABLE PURCHASES
IN THE 1985-87 BIENNIUM

TAXABLE SALES AND TAXABLE PURCHASES
BREAKDOWN BY
MAJOR BUSINESS SECTORS



TAXABLE SALES AND TAXABLE PURCHASES
BREAKDOWN OF
RETAIL TRADE SECTOR

0.4% Mobile Homes
7.6% On and Off Sale Liquor
10.9% Miscellaneous Retail Stores
12.2% Retail Building Materials and Garden Supply
13.1% Eating Establishments
9.3% Food Stores
6.9% Apparel and Accessory Stores
10.5% Automotive Dealers and Service Stations
6.6% Furniture, Appliances, and Home Furnishings
22.5% General Merchandise Store

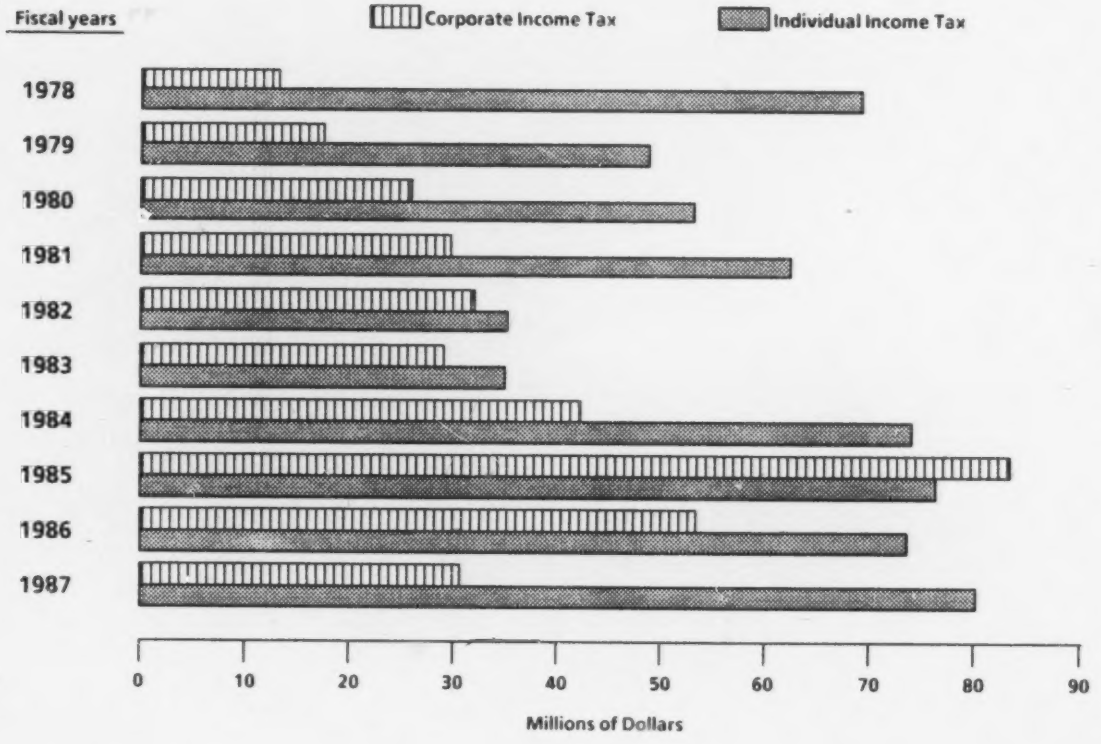
SOURCE: North Dakota Sales and Use Tax Quarterly Statistical Reports and North Dakota TX-1188 Records

NOTE: The sales tax is levied upon the gross receipts from retail sales of tangible personal property; furnishings or service of steam, gas and communication services; recreation and amusement receipts; magazines and periodicals; leasing or renting of hotel, motel or tourist court accommodations; leasing or renting of tangible personal property

The use tax is imposed upon any tangible personal property purchased at retail for storage, use, or consumption in this state and not subject to the North Dakota sales tax, unless otherwise exempt by law. Generally this tax applies on purchases of tangible personal property at retail outside North Dakota for use in this state when such purchases are made from a retailer who does not collect a sales and use tax. Under these circumstances, the purchaser must remit the tax directly to the North Dakota Tax Commissioner.

Sales Tax permit holders are categorized through the use of the Standard Industrial Classification System, generally referred to as "SIC" codes. The SIC system is used by government and business throughout the United States to facilitate record keeping and the compilation of statistics regarding business and industry.

NORTH DAKOTA STATE TAX DEPARTMENT
NET INDIVIDUAL AND CORPORATE INCOME TAX COLLECTIONS
DURING FISCAL YEARS ENDED 30, 1978 TO 1987
1 June



Individual Income Tax

The decrease in individual income tax collections for fiscal years 1982 and 1983 is due to major tax relief provided by a 1980 initiated measure and the 1981 Legislature. First, the initiated oil tax measure enacted by voters included a provision allowing an Energy Cost Relief credit to all individual income taxpayers. The credit enabled taxpayers to subtract up to $100 from their state income tax liability. Second, the 1981 Legislature approved a simplified optional short form filing method (Form 37-S) on which taxpayers multiplied their federal income tax liabilities by 7.5 percent to determine their state income tax liabilities. The standard long form (Form 37) rates were reduced as well. The total effect of these provisions resulted in a significant decrease in individual income tax liabilities for tax years 1981 and 1982, payable in fiscal years 1982 and 1983.

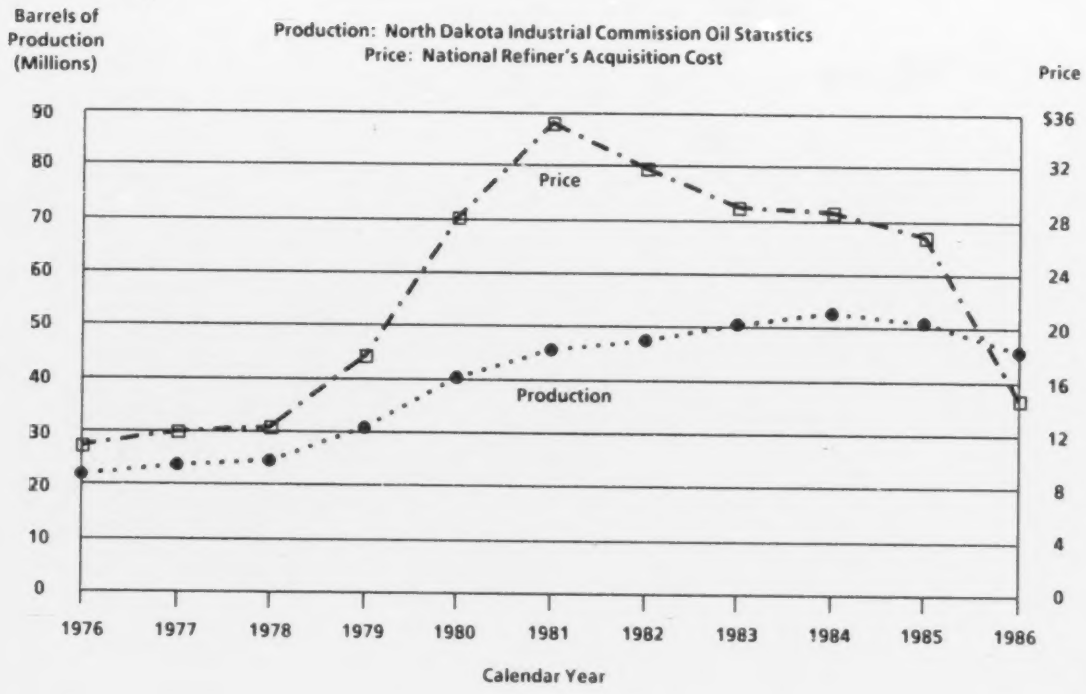
The 1983 Legislature suspended the Energy Cost Relief Credit and temporarily raised the rates on both Form 37 (long from) and Form 37-S (short from), beginning with tax year 1983. These temporary measures were made permanent by the 1985 Legislature.

The Special Legislative Session held in December 1986 passed a bill which included a provision for general withholding of state income taxes, and mandatory declarations of estimated income tax payments. Therefore, a portion of the 1987 individual income tax revenues are a result of the passage of these provisions.

Corporate Income Tax

The decrease in corporate income tax collections for fiscal years 1982 and 1983 is due to tax relief provided by the 1981 Legislature. The increase in collections in FY-1984 and FY-1985 is due to an increase in corporate income, increased audit activity, increased tax rates and a modification to the filing schedule. The tax rates were increased by 50% beginning in tax year 1983. Taxpayers whose estimated tax due can be expected to exceed $5,000 are required to file quarterly estimated tax payments for tax years beginning after December 31, 1983. The one-time positive revenue impact associated with the implementation of the quarterly estimated payment requirement is the primary cause for the significant collection increase in fiscal year 1985.

ANNUAL CRUDE OIL PRODUCTION IN NORTH DAKOTA AND DOMESTIC OIL PRICE PER BARREL DURING CALENDAR YEARS 1976 TO 1986



OIL EXTRACTION TAX

The oil extraction tax became effective January 1, 1981, as a result of an initiated measure passed by the citizens of North Dakota. The gross value of oil production at the well, less any part which is specifically exempt, is taxed at a rate of 6.5%. The tax was remitted to the Tax Commissioner on a monthly return for each production month.

In the 1985-87 biennium, the oil extraction tax revenue was distributed according to a formula which allocated 90% of the revenue to the State General Fund and 10% to the Resources Trust Fund.

DISTRIBUTION OF NET OIL EXTRACTION TAX REVENUE 1985-87 BIENNIUM

	RESOURCES TRUST FUND DISTRIBUTION	GENERAL FUND DISTRIBUTION	TOTAL DISTRIBUTION
Fiscal Year 1986	$5,655,106.32	$51,493,652.42	$57,148,758.74
Fiscal Year 1987	3,513,557.00	31,877,583.89	35,391,140.89
1985-87 Biennium	$9,168,663.32	$83,371,236.31	$92,539,899.63

NORTH DAKOTA STATE TAX DEPARTMENT
DISTRIBUTION OF NET OIL AND GAS PRODUCTION TAX REVENUE
1985-87 BIENNIUM

COUNTY	FISCAL YEAR 1986 COUNTY DISTRIBUTION	FISCAL YEAR 1986 GENERAL FUND DISTRIBUTION	FISCAL YEAR 1986 TOTAL DISTRIBUTION	FISCAL YEAR 1987 COUNTY DISTRIBUTION	FISCAL YEAR 1987 GENERAL FUND DISTRIBUTION	FISCAL YEAR 1987 TOTAL DISTRIBUTION
Billings	$3,140,094.20	$10,143,119.28	$13,283,213.48	$2,238,734.84	$5,330,376.82	$7,569,111.66
Bottineau	1,257,202.58	1,144,390.51	2,401,593.09	811,369.62	604,387.65	1,415,757.27
Bowman	1,004,192.04	670,652.26	1,674,844.30	535,025.44	402,502.77	937,528.21
Burke	994,120.77	699,264.23	1,693,385.00	509,426.20	391,526.37	900,952.57
Divide	766,653.52	458,835.21	1,225,488.73	515,529.84	347,129.05	862,658.89
Dunn	1,689,523.09	2,349,032.87	4,038,555.96	1,163,369.91	1,442,752.50	2,606,122.41
Golden Valley	706,883.47	416,796.44	1,123,679.91	349,798.09	234,236.46	584,034.55
Hettinger	13,720.70	7,484.85	21,205.55	4,634.04	3,089.37	7,723.41
McHenry	34,752.56	19,372.36	54,124.92	12,700.94	8,467.33	21,168.27
McKenzie	4,063,639.07	13,905,911.80	17,969,550.87	3,125,453.93	8,878,371.68	12,003,825.61
Mountrail	336,454.97	178,950.69	515,405.66	169,829.94	113,219.99	283,049.93
Renville	962,684.51	625,325.56	1,588,010.07	583,419.93	432,259.11	1,015,679.04
Slope	160,183.51	94,959.24	255,142.75	47,527.15	31,684.82	79,211.97
Stark	965,117.08	622,987.76	1,588,104.84	606,069.68	463,584.82	1,069,654.50
Ward	44,944.47	23,884.38	68,828.85	14,498.84	9,665.96	24,164.80
Williams	2,367,715.93	4,648,970.68	7,016,686.61	1,689,299.79	3,007,199.22	4,696,499.01
Penalty, Interest and Unallocated		198,185.98	198,185.98		332,860.76	332,860.76
TOTAL DISTRIBUTIONS	**$18,507,882.47**	**$36,208,124.10**	**$54,716,006.57**	**$12,376,688.18**	**$22,033,314.68**	**$34,410,002.86**

Oil and gas Gross Production Tax

The gross value of oil or gas production at the well, less any part which is specifically exempt, is taxed at a rate of 5% in lieu of property taxes on the well. During the 1985-87 biennium, the tax was remitted to the Tax Commissioner by the purchaser or producer on monthly returns.

One-fifth of the oil and gas gross production tax revenue is distributed to the State General Fund, while four-fifths is distributed between the county in which the oil or gas is produced and the State General Fund according to the following distribution schedule in effect for production during the 1985-87 biennium: The first $1 million each year is distributed 75% to the county and 25% to the General Fund; the second $1 million, 50% to the county, 50% to the General Fund; amounts over $2 million, 25% to the county, 75% to the General Fund. However, the amount that any one county can receive from each fiscal year of production in the 1985-87 biennium is limited according to population as follows: Up to 3,000, no more than $3.9 million; between 3,000 and 6,000, no more than $4.1 million, 6,000 or greater, no more than $4.6 million. When a county reaches its maximum amount allowed, the entire four-fifths share of subsequent revenue from fiscal year production is deposited in the State General Fund. The county allocation is apportioned as follows: 45% to the county general fund, 35% to the school districts within the county, and 20% to the incorporated cities. However, the amount that any school district can receive in any single academic year is limited by a maximum amount based upon the average per pupil costs and the number of students. The amount any city can receive is limited by a maximum based upon a measure of population times $500. Once a city or school district reaches its maximum amount allowed, the excess funds are deposited in the county general fund.

NORTH DAKOTA STATE TAX DEPARTMENT
COAL CONVERSION TAX
1985-87 BIENNIUM

KILOWATT HOURS PRODUCED DURING THE 1985-87 BIENNIUM

COUNTY	FY 86	FY 87
MCLEAN	5,776,903,000	5,442,470,000
MERCER	9,794,410,228	10,427,224,882
OLIVER	3,915,907,000	4,133,694,000
TOTAL KWH PRODUCED	19,487,220,228	20,003,388,882

DISTRIBUTION OF COAL CONVERSION TAX REVENUE – 1985-87 BIENNIUM

DISTRIBUTION FUND	FY 86	FY 87
COUNTIES	$1,992,511.96	$1,832,395.12
STATE GENERAL FUND	8,312,656.87	8,638,434.16
TOTAL REVENUE COLLECTED	$10,305,168.83	$10,470,829.28

COAL CONVERSION FACILITIES TAX: Electric generating plants which use coal and have a single generating unit with the capacity of 120,000 kilowatts or more were taxed at the rate of 0.50 mill per kilowatt hour of electricity produced for sale. This tax is in lieu of all ad valorem taxes except on land.

Also, subject to the coal conversion facilities tax was the coal gasification plant. During the 1983-85 biennium, the coal gasification plant paid a tax of 2.5% of the monthly gross receipts or 10 cents per 1,000 cubic feet of gas produced, whichever was greater, and during the 1985-87 biennium, the statutory tax was changed to 2.5% of the monthly gross receipts or 15 cents per 1,000 cubic feet of gas produced, whichever was greater. Because the Department of Energy assumed operation of the coal gasification plant on August 1, 1985, all production after July 31, 1985 became nontaxable.

Distribution of revenues was based on the following formulas:

	State General Fund	Counties
Electrical Generating Plants:	65% of .25 Mill 100% of .25 Mill	35% of .25 Mill
Coal Gasification Plant:	65% of Total	35% of Total

NORTH DAKOTA STATE TAX DEPARTMENT
COAL SEVERANCE TAX
1985-87 BIENNIUM

TAXABLE TONNAGES SEVERED DURING THE 1985-87 BIENNIUM

COUNTY	FY 86	FY 87
ADAMS	.00	410.54
BOWMAN	1,884,239.64	1,830,743.62
BURKE	1,075.00	271.00
MCLEAN	5,475,223.00	4,676,090.00
MERCER	11,865,424.31	12,781,477.37
OLIVER	5,705,023.09	5,572,615.58
STARK	226,920.00	209,800.00
WARD	41,639.11	3,085.46
WILLIAMS	25,578.00	16,758.00
TOTAL TAXABLE TONS SEVERED	25,225,122.15	25,091,251.57

DISTRIBUTION OF COAL SEVERANCE TAX REVENUE – 1985-87 BIENNIUM

DISTRIBUTION FUND	FY 86	FY 87
COUNTIES (20%)	$4,903,201.20	$5,559,212.63
IMPACT OFFICE (35%)	8,580,602.07	9,728,622.11
LAND BOARD (15%)	3,677,400.90	4,169,409.48
STATE GENERAL FUND (30%)	7,600,964.22	8,338,818.95
TOTAL REVENUE COLLECTED	$24,762,168.39	$27,796,063.17

TAX RATE: The Coal Severance tax rate for the 1985-87 biennium was $1.04 per ton.

NORTH DAKOTA STATE TAX DEPARTMENT
COAL SEVERANCE TAX

The Coal Severance Tax was enacted by the 1975 North Dakota Legislature. This tax is applied to coal severed from the ground on a rate per ton basis. The 1975 law provided for a 50¢ per ton with an escalator clause that increased the tax 1¢ per ton for each 3 point increase in the Wholesale Price Index. The 1975 law was made effective July 1, 1975.

The revenues collected during the 1975-77 Biennium were distributed according to the following formula:

1. 35% to a special fund to be granted by the Impact Office to impacted political subdivisions.
2. 30% to a special trust fund to be administered by the State Land Board.
3. 5% to coal-producing counties.
4. 30% to the State General Fund.

The 1975 law was replaced with the 1977 law, changing the rate and the distribution formula. The 1977 law, effective July 1, 1977, provided for a 65¢ per ton with an escalator clause that increased the tax 1¢ per ton an a quarterly basis for every one point increase in the Wholesale Price Index.

The 1977 law also changed the distribution of revenues to the following:

1. 35% to a special fund to be granted by the Impact Office to impacted political subdivisions.
2. 15% to a special trust fund to be administered by the State Land Board.
3. 20% to coal-producing counties.
4. 30% to the State General Fund.

The 1977 law was replaced with the 1979 law. The 1979 law, effective July 1, 1979, provided for an 85¢ per ton tax with an escalator that would increase the tax 1¢ per ton on a semi-annual basis for every four point increase in the Wholesale Price Index (now known as the Producer Price Index). The distribution of revenues remained the same.

The 1981 Legislature exempted from the coal severance tax coal used by the state or any of its political subdivisions and coal used for heating buildings within the state. Coal used for heating purposes became subject to the sales tax.

The 1985 Legislature exempted from the coal severance tax coal used in agricultural processing or sugar beet refining plants within North Dakota or adjacent states. Also, the tax rate was reduced by 50% for coal burned in a cogeneration facility designed to use renewable resources to generate 10% or more of its energy output.

	FY-86	FY-87
Nontaxable Tonnages Severed	433,068	263,691

TRANSMISSION LINE TAX COLLECTIONS

	1983-85 Biennium		1985-87 Biennium	
	FY-84	FY-85	FY-86	FY-87
Transmission Line Tax	$352,066.50	$374,744.25	$415,435.50	$416,225.25

Collections represent payments made by cooperatives that owned or operated electrical transmission lines of 230 kilovolts or larger. They were taxed at the rate of $225.00 per mile.

SOURCE: Property Tax Division, ND State Tax Department.

RURAL ELECTRIC COOPERATIVES AND MUTUAL AND COOPERATIVE TELEPHONE COMPANIES

Rural electric cooperatives are nonprofit cooperative corporations engaged in the distribution or transmission of electric energy primarily for consumption in rural areas. Rural electric cooperatives also include those nonprofit cooperative corporations engaged in the generation of electric energy primarily for consumption in rural areas. The electrical energy generating units of such plants are under 100,000 kilowatts of generating capacity. Such plants are taxable pursuant to Chapter 57-33, N.D.C.C.

Rural electric cooperatives are taxed at 1% of their gross receipts each year for the first 5 years and 2% each year thereafter in lieu of taxes on all property except land. The tax of each rural electric cooperative is certified by the Tax Commissioner to the counties for collection and is allocated by the county auditor to the taxing district in which the rural electric line or plant, as the case may be, is located.

Mutual and cooperative telephone companies are taxed at a graduated rate. The tax of each company is certified by the Tax Commissioner to the counties and apportioned to the school districts in which its telephones are located.

TAXES CERTIFIED TO COUNTIES FOR COLLECTION FOR THE YEARS:*

	1983	1984	1985	1986
Rural Electric Cooperative	$3,791,346.50	$4,640,492.15	$5,107,447.40	$5,383,027.42
Mutual & Co-op Telephone Co.	486,128.10	512,452.75	530,488.125	540,094.51

* These taxes are certified in the fall of the indicated years and payable in the following year.

SOURCE: Property Tax Division, ND State Tax Department.

NORTH DAKOTA STATE TAX DEPARTMENT
BANKS AND BUILDING AND LOAN ASSOCIATIONS

Banks and building and loan associations are taxed at 5% of their net income from the preceding year in lieu of all taxes except motor vehicle fuel and special fuel taxes, sales and use taxes, including motor vehicle excise taxes, and taxes upon real and personal property.1 The tax of each bank and building and loan association is certified by the Tax Commissioner to the counties for collection and is apportioned to the state, county and local taxing districts in which the bank or building and loan association is located.

TAXES CERTIFIED TO COUNTIES FOR THE YEARS:2

	1981	1982	1983	1984	1985
Banks	$3,282,848.65	$3,012,831.04	$3,225,732.19	$3,812,239.22	$3,538,470.18
Building & Loan Associations	2,833.20	500.00	350.00	198,067.04	1,025,704.00

1 There is an additional 2% business privilege tax on net income. The revenue from this tax is placed in the State General Fund and is not included in the above figures.

2 Taxes are certified to the counties on August 1 of the following year. They are required to be remitted to the counties by December 31 of the certification year.

SOURCE: Income Tax Division, ND State Tax Department.

BUSINESS PRIVILEGE TAX COLLECTIONS

1983-85 Biennium		1985-87 Biennium	
FY-84	FY-85	FY-86	FY-87
$1,945,519.48	$1,815,946.15	$2,301,172.86	$2,570,985.90

Banks and Building and Loan Associations are required to pay a 2% business privilege tax. Revenues are placed in the State General Fund.

SOURCE: Comparative Statement of Collections, ND State Tax Department.

CIGARETTE AND TOBACCO PRODUCTS NET TAX COLLECTIONS

	1983-85 Biennium		1985-87 Biennium	
	FY-84	FY-85	FY-86	FY-87
3¢ per package cigarette tax distributed to cities on population basis	$2,112,569.52	$2,007,212,33	$1,924,442.06	$1,816,668.60
15¢ per package cigarette tax distributed to State General Fund	$10,562,835.54	$10,036,059.31	$9,622,208.13	$9,091,286.38
11% of the wholesale price of tobacco products distributed to State General Fund	323,657.31	346,207.16	338,916.08	348,833.06

For the sale of larger size cigarette packages the city/state general fund cigarette tax breakdown is as follows: City 3¾¢ and state general fund 18¾¢. The first collections received from the sale of larger size cigarette packages was in the month of June, 1983.

SOURCE:Comparative Statement of Collections, ND State Tax Department.

AIRLINE TAX

Operating properties of air transportation companies are assessed by the State Board of Equalization with taxes computed by the Tax Commissioner and certified to the State Treasurer for collection. The taxes upon air transportation companies are allocated by the State Treasurer to the city or municipal airport authority where such company makes regularly scheduled landings according to the ratio that the annual gross landing weight of the company for such city or municipal airport authority bears to the total annual gross landing weight of the company for all cities or municipal airport authorities where it makes regularly scheduled landings; these taxes are to be used exclusively for airport purposes.

TAXES CERTIFIED TO STATE TREASURER FOR THE YEARS:*

	1983	1984	1985	1986
Airlines	$45,131.57	$49,076.90	$55,567.94	$83,778.86

*Airline assessments of real property are determined by the State Board of Equalization in August of each year. The tax due amounts are computed in the spring of the following year using the average mill rate for cities operating airports served by scheduled airlines. Due to a North Dakota Supreme Court decision, personal property of airlines may not be assessed in assessment year 1982 and the assessment years thereafter.

SOURCE: Property Tax Division, ND State Tax Department.

SPECIAL FUELS TAX AND MOTOR VEHICLE FUEL TAX COLLECTIONS, GALLONAGE AND DISBURSEMENTS 1985-87 BIENNIUM

	FY - 1986	FY - 1987
SPECIAL FUELS TAX COLLECTIONS		
Special Fuels Tax (13¢)	$12,947,067 51	$13,314,764 64
Special Fuels Tax (8¢)	45,313 75	6,486 50
Special Fuels Jet (8¢)	678,138 72	661,877 95
Special Fuels Excise Tax (2%)	5,149,659 57	3,622,043 31
Special Fuels License Fees Collected	388,252 07	398,243 55
Penalty & Interest Collected	35,168 62	21,234 86
Total Collections	$19,243,600 24	$18,024,650 81
Net Refunds Paid	998,311 58	1,171,401 08
Net Special Fuels Tax & Fees	$18,245,288 66	$16,853,249 73
GALLONAGE - SPECIAL FUELS		
Gallons on Which 13¢ Was Paid	99,032,207 00	102,937,047 00
Gallons on Which 8¢ Was Paid	567,560 00	101,943 00
Gallons (Jet) on Which 8¢ Was Paid	8,608,543 00	8,273,473 00
Gallons on Which 2% Was Paid	334,491,633 00	317,118,107 00
Gallons on Which Tax Was Refunded	10,198,597 00	12,560,061 00
Total Net Gallons on Which 2%, 8¢, or 13¢ Tax Was Paid	432,501,346 00	415,870,509 00
SPECIAL FUELS TAX DISBURSEMENTS		
Earmarked for Refund	$959,734 73	$1,105,000 00
Highway Distribution Fund, 2%, 8¢ or 13¢ Tax	16,889,463 85	15,418,078 78
Township Highway Construction Fund, 1¢ Tax	995,997 67	1,029,694 08
Aeronautics Commission Construction Fund, 4% of Jet Fuel	198,826 20	204,732 35
Aeronautics Commission Special Fund, 8¢	199,577 79	267,145 60
Total Disbursements	$19,243,600 24	$18,024,650 81
MOTOR VEHICLE FUEL TAX COLLECTIONS		
Motor Vehicle Fuel Tax (13¢)	$38,016,899 15	$37,244,842 02
Aviation Fuel Tax (8¢)	190,135 66	207,645 47
Gasohol Tax, (varied)	2,884,495 57	3,995,247 25
One-Half Cent Tax Assigned Gallons (Agri Derived Fuel Tax Fund)	59,418 71	59,600 16
1¢ Tax on Tax Assigned Gallons (Township Fund)	118,856 99	119,165 19
Penalty and Interest Collected	49,323 92	51,482 85
Total Collections	$41,319,130 00	$41,677,982 94
Net Refunds Paid	2,945,484 18	3,505,238 05
Net Motor Vehicle Fuel Tax	$38,373,645 82	$38,172,744 89
GALLONAGE - MOTOR VEHICLE FUEL		
Gallons of Which 13¢ Was Paid	297,706,306 00	290,357,041 00
Gallons on Which 8¢ Was Paid	2,425,328 00	2,668,887 00
Gallons of Gasohol Sold	55,418,485 00	79,311,890 00
Gallons on Which Tax Was Refunded	35,339,094 00	31,628,065 00
Net Gallons on Which Tax Was Paid	320,211,025 00	340,709,753 00
MOTOR VEHICLE FUEL TAX DISBURSEMENTS		
Earmarked for Operating	$409,240 00	$409,241 00
Earmarked for Refunds	4,242,491 08	3,575,000 00
Agri Derived Fuel Tax Fund (One-Half Cent)	218,424 73	206,374 44
Township Road Fund (1¢)	3,646,491 56	3,810,539 89
Highway Distribution Fund (13¢, varied)	32,654,838 05	33,524,182 14
Aeronautics Commission Special Fund (8¢) (Aviation Fuel)	87,971 59	77,908 43
Aeronautics Commission Construction Fund (4%) (Aviation Fuel)	59,672 99	74,737 04
Total Disbursements	$41,319,130 00	$41,677,982 94

Special Fuels and Motor Vehicle Taxes

A per gallon tax is levied on the sale or delivery to a user of all special fuels except those used for heating, agriculture, railroad purposes, or for industrial purposes other than public funded projects. The tax rate was 13¢ per gallon during the 1985-87 biennium. The tax is refundable when used for nonhighway purposes. A tax of 2% is levied on the sale of all special fuels which is exempt from the per gallon tax. The 2% tax is not refundable.

Motor fuel (gasoline) sold to persons other than licensed dealers is taxed at a rate, effective for the 1985-87 biennium, of 13¢ per gallon. This tax is refundable when the fuel is used for agricultural or industrial purposes other than public funded projects. The refunds are reduced by 1¢ per gallon for the Township Highway Aid Fund and one-half cent per gallon for the agriculturally derived fuel tax fund.

The motor fuel and special fuels taxes are administered by the Tax Commissioner. A small part of the fuel tax collections is set aside to pay for administration of the tax and to allow for refunds. The remaining fuel tax collections are transferred to the Highway Tax Distribution Fund and distributed by the State Treasurer.

In The 1985-87 biennium, the tax rate was reduced 8¢ per gallon for gasoline blended with North Dakota produced ethanol. For gasoline blended with ethanol produced from another state, the rate was reduced by the amount of the tax reduction allowed by the other state if that state allowed a similar credit for North Dakota produced ethanol. The gasohol tax is refundable when used for agricultural purposes. The refunds are reduced by 1¢ per gallon for the Township Highway Aid Fund and one-half cent per gallon for the agriculturally derived fuel tax fund.

NORTH DAKOTA STATE TAX DEPARTMENT
ESTATE TAXES ASSESSED *
1985-87 BIENNIUM

	FY - 1986			FY - 1987		
	TAX (Chapter 57-37)	TAX (Chapter 57-37.1)	TOTAL TAX State & County **	TAX (Chapter 57-37)	TAX (Chapter 57-37.1)	TOTAL TAX State & County **
Adams	$ 00	$80,325 51	$80,325 51	$ 00	$15,089 24	$15,089 24
Barnes	00	34,747 74	34,747 74	00	16,623 24	16,623 24
Benson	00	90 14	90 14	00	2,255 15	2,255 15
Billings	00	1 00	1 00	00	9,851 01	9,851 01
Bottineau	9 64	33,807 25	33,816 89	00	28,856 13	28,856 13
Bowman	28 00	6,108 80	6,136 80	00	152,961 52	152,961 52
Burke	00	17,019 85	17,019 85	00	45,632 08	45,632 08
Burleigh	729 72	165,538 55	166,268 27	00	111,450 33	111,450 33
Cass	228 40	323,224 63	323,453 03	00	74,613 02	74,613 02
Cavalier	00	55,049 29	55,049 29	00	40,471 32	40,471 32
Dickey	00	00	00	00	4,659 65	4,659 65
Divide	142 00	1,570 74	1,712 74	00	12,229 02	12,229 02
Dunn	00	9,170 60	9,170 60	00	11 71	11 71
Eddy	00	13,338 00	13,338 00	00	00	00
Emmons	00	00	00	00	00	00
Foster	00	42,838 32	42,838 32	00	34,780 56	34,780 56
Golden Valley	00	39,641 08	39,641 08	365 20	11,610 21	11,975 41
Grand Forks	00	182,817 39	182,817 39	26 00	126,314 43	126,340 43
Grant	00	10,242 37	10,242 37	00	512 59	512 59
Griggs	00	00	00	00	29,665 62	29,665 62
Hettinger	715 63	4,908 59	5,624 22	00	23,483 13	23,483 13
Kidder	00	34,173 54	34,173 54	00	00	00
LaMoure	00	15,789 61	15,789 61	00	17,310 49	17,310 49
Logan	00	00	00	00	3,398 00	3,398 00
McHenry	00	53,541 83	53,541 83	00	13,608 20	13,608 20
McIntosh	00	985 88	985 88	00	00	00
McKenzie	37 96	30,189 46	30,227 42	9 28	35,901 52	35,910 80
McLean	83 93	22,236 91	22,320 84	00	00	00
Mercer	00	1,001 25	1,001 25	00	2,420 52	2,420 52
Morton	00	29 16	29 16	00	40,710 72	40,710 72
Mountrail	347 50	39,428 84	39,776 34	00	92,995 49	92,995 49
Nelson	30 60	10,496 83	10,527 43	00	23,550 29	23,550 29
Oliver	00	486 27	486 27	00	00	00
Pembina	284 00	27,824 73	28,108 73	00	60,714 48	60,714 48
Pierce	21 94	1,849 82	1,871 76	00	00	00
Ramsey	00	78,841 42	78,841 42	00	40,405 17	40,405 17
Ransom	00	34,125 29	34,125 29	00	19,581 21	19,581 21
Renville	00	39,898 60	39,898 60	00	12,052 00	12,052 00
Richland	00	162,433 09	162,433 09	00	24,874 09	24,874 09
Rolette	2 00	44,217 18	44,219 18	00	5,060 68	5,060 68
Sargent	00	23,597 34	23,597 34	00	31,065 16	31,065 16
Sheridan	00	1,657 67	1,657 67	00	3,214 13	3,214 13
Sioux	00	00	00	00	00	00
Slope	524 00	5,286 79	5,810 79	00	178 05	178 05
Stark	72 33	13,092 33	13,164 66	60 56	168,113 47	168,174 03
Steele	00	1,398 27	1,398 27	00	3,407 80	3,407 80
Stutsman	00	38,460 92	38,460 92	00	37,801 99	37,801 99
Towner	00	58,217 86	58,217 86	00	39,463 29	39,463 29
Traill	00	86,051 52	86,051 52	00	98,170 05	98,170 05
Walsh	00	69,782 28	69,782 28	00	57,706 26	57,706 26
Ward	00	32,365 30	32,365 30	560 00	106,077 07	106,637 07
Wells	00	5,183 44	5,183 44	40 00	18,110 05	18,150 05
Williams	65 00	113,095 77	113,160 77	00	92,978 36	92,978 36
Miscellaneous	14 61	42,256 18	42,270 79	00	358 90	358 90
TOTAL	$3,337.26	$2,108,435.23	$2,111,772.49	$1,061.04	$1,790,297.40	$1,791,358.44

* The above schedule indicates only the amount of estate taxes determined in the respective counties and does not reflect any subsequent proration between other counties or municipalities.

**Chapter 57-37 distributes 65% to county and 35% to state. Chapter 57-37.1 distributes 100% to county and cities in the county.

SOURCE: Estate Tax Section, TX-3030 Records, ND State Tax Department

ESTATE TAX

Property transferred at death, during lifetime in contemplation of death, or in a manner intended to take effect at death is subject to the estate tax. North Dakota does not have a separate gift tax law. The estate tax is administered by the State Tax Commissioner and is imposed on the full and fair market value of the estate less exemptions and deductions. It is not imposed on the individual beneficiary.

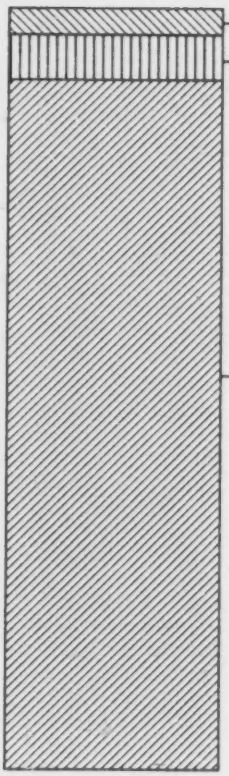
Effective for deaths occuring on or after January 1, 1977, North Dakota adopted the provisions of the Federal Tax Reform Act of 1976. In place of the unified credit, North Dakota adopted a $200,000 exemption and a separate rate schedule.

Effective March 16, 1979, the rate of estate tax shall equal the maximum federal estate tax credit for state death taxes.

Estate tax provisions of the 1981 Economic Recovery Act were adopted by the state effective January1, 1982.

NORTH DAKOTA STATE TAX DEPARTMENT
SOURCES OF GENERAL AD VALOREM PROPERTY TAXES, SPECIAL PROPERTY TAXES AND SPECIAL ASSESSMENTS

(Levied in 1985 - Payable in 1986)



SPECIAL PROPERTY TAXES (3.65% of Total)	
Telephone (Mutual & Rural)	$ 530,469.47
Mobile Home	1,957,086.69
REA Co-ops	5,107,447.40
Bank	3,812,239.22
Building and Loan Associations	199,884.22
Woodland	16,465.91
Total	$ 11,623,592.91
UTILITIES (5.90% of Total)	
Railroads	$ 2,067,111.18
Telephone	5,389,772.31
Telegraph	17,690.40
Electric, Gas, Water & Heat	5,333,484.16
Pipe Lines	5,956,341.00
Tax Increments	
Total	$ 18,764,399.05
REAL ESTATE (90.45% of Total)*	
Rural	$ 108,824,097.29
City	179,121,255.08
Total	$ 287,945,352.37
GRAND TOTAL (100%)	$ 318,333,344.33

*Includes all special assessments

Source: 1986 Statistical Report, 1985 Property Taxes Levied, 1986 Property valuation, N.D. State Tax Department

Property Tax

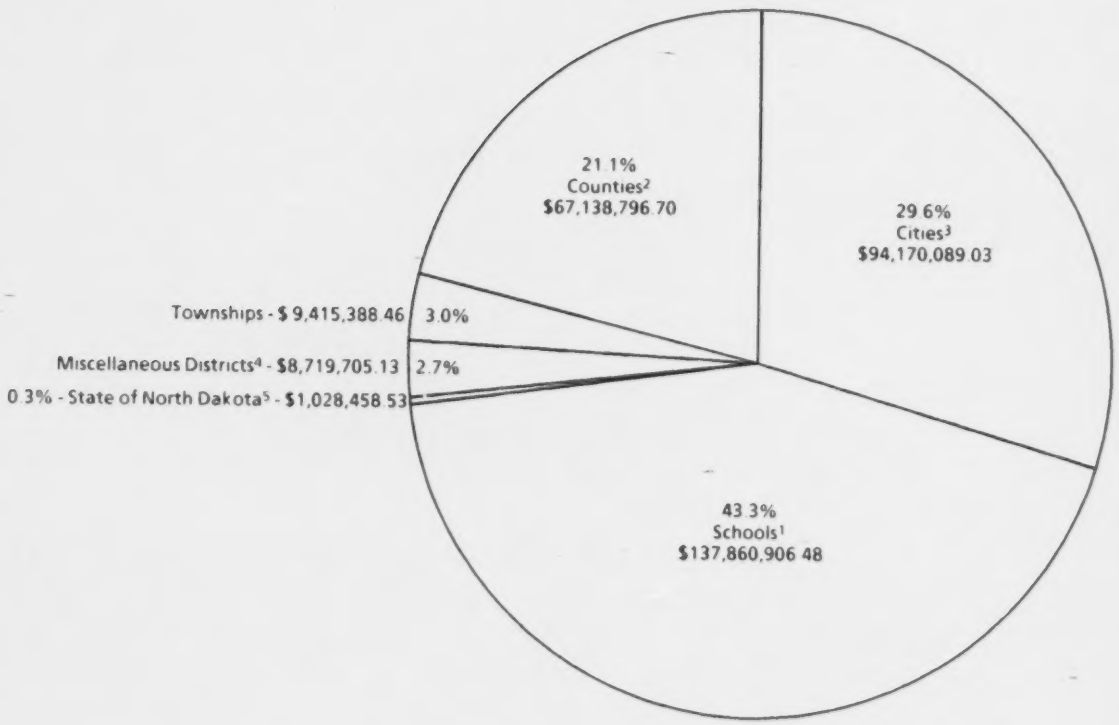
Real property owned by a corporation, partnership, individual, estate or trust is subject to a tax based on its valuation. The property tax, except the tax on the operating property of railroads and other utilities, is assessed and administered locally. The property tax is collected and distributed by the county to the county, cities, townships, school districts, and other taxing districts. The North Dakota Century Code has provided that assessments be at true and full value and that assessed value be computed at 50% of true and full value. Also, true and full value of agricultural property will now be based upon productivity. Beginning with taxes levied in 1985 (payable in 1986) and thereafter, the assessed value will be 50% of true and full value and taxable value will be a percentage of assessed value according to the percentages established by the Legislature for the various classes of property as follows: residential property at 9%, commercial, railroad and airline property at 10%, agricultural property at 10%, and centrally assessed property at 10%.

The assessed valuation of railroad and public utility property is centrally determined by the State Board of Equalization. Taxable valuation of railroad and utility property is a percentage of assessed value according to the percentages established by the 1981 Legislature. Mutual or cooperative telephone companies and rural electric cooperatives are subject to a gross receipts tax.

Also instead of a property tax, large electrical generating plants are subject to a tax on electricity produced for sale either through a gross receipts tax or a per kilowatt hour tax. Large transmission lines are taxed on a per mile basis. The taxes on electrical production, gross receipts from electricity production, or large transmission lines are not included in the above.

NORTH DAKOTA TAX DEPARTMENT
DISTRIBUTION OF GENERAL AD VALOREM PROPERTY TAXES, SPECIAL PROPERTY TAXES AND SPECIAL ASSESSMENTS

(Levied in 1985 - Payable in 1986)



GRAND TOTAL - $318,333,344.33

[1] The 1981 Legislature eliminated the county equalization fund for taxes levied in 1981 and thereafter.

[2] Including County Park Districts, County Library, County Airport, Unorganized Township.

[3] Including City Park Districts and Special Assessments.

[4] Garrison Diversion, Water Management Districts, Rural Fire Districts, Soil Conservation Districts, and All Special Assessments for Rural Districts.

[5] Constitutional one mill levy for the medical center at the University of North Dakota.

SOURCE: 1986 Statistical Report, 1985 Property Taxes Levied, 1986 Property Valuation, N.D. State Tax Department.

NORTH DAKOTA STATE TAX DEPARTMENT
PROPERTY TAX INFORMATION
SENIOR CITIZENS AND DISABLED PERSONS PROPERTY TAX REFUNDS AND CREDITS

Year	Number of Persons Receiving Renter's Refunds	Number of Homeowner's Credits	Homeowner Taxable Value of Property Exempted
1977	1,380	8,765	5,570,440
1978	2,270	9,851	6,347,442
1979	2,572	10,529	6,569,192
1980	2,590	10,633	7,625,711
1981	2,635	10,158	7,868,922
1982	2,664	9,435	7,156,134
1983	3,133	8,820	6,567,286
1984	3,068	8,206	6,178,404
1985	2,206	7,350	5,254,539
1986	1,993	7,518	5,878,944

The North Dakota Legislature has provided a homestead property tax credit program since 1969. Persons 65 years of age or older, or totally and permanently disabled, who meet the requirements of the program are eligible to receive a credit to reduce property taxes on their home. Qualified renters receive a partial refund of their rent. Since 1977 the maximum income eligibility limit has been adjusted by the Legislature as follows: from $8,000 to $9,000 in 1979, to $10,000 in 1981 and to $12,000 in 1985.

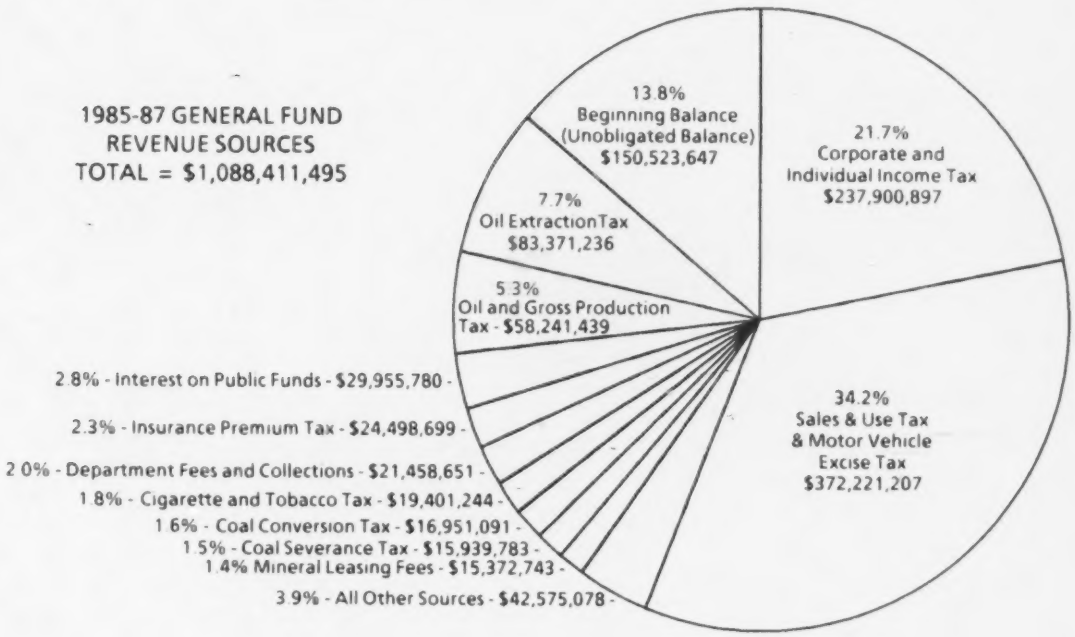
The credit for eligible homeowners is a reduction in the taxable value of the homestead as determined by the following schedule:

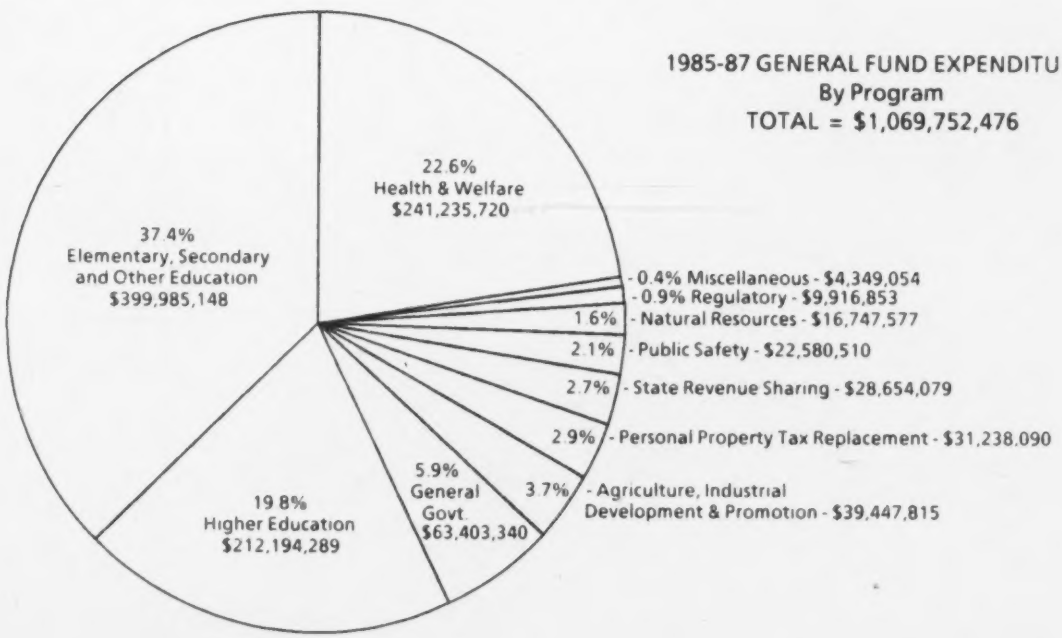
For Taxes Levied in 1985 and 1986 (Payable in 1986 and 1987)

Income of	Reduction	Maximum Reduction
$ 0 - $ 6,000	100%	$2,000
$ 6,001 - $ 7,500	80%	1,600
$ 7,501 - $ 9,000	60%	1,200
$ 9,001 - $10,500	40%	800
$10,501 - $12,000	20%	400

Eligible renters will receive a refund for overpayment of rent when 20% of their total annual rent exceeds 4% of their total annual income. Charges for such services as heat, lights and furniture must be excluded when determining the annual rent payment for the purposes of renter's refund. The maximum refund allowable to a renter is $210.

STATE GENERAL FUND REVENUES AND EXPENDITURES IN THE 1985-87 BIENNIUM





SOURCE: Report on the status of the General Fund at the close of the 1985-87 Biennium, Office of Management and Budget, September, 1987

NORTH DAKOTA STATE TAX DEPARTMENT
STATEMENT OF EXPENDITURES
1985-87 BIENNIUM

	Commissioner's Division	Legal Division	Controller's Division	Sales & Special Taxes Division	Income Tax Division	Property & Utility Taxes Division	Homestead Credit Administration	Multistate Tax Commission	State Board of Equilization	Total
Salaries and Wages										
FY 86	$641,633.40	$252,271.06	$663,620.22	$969,916.57	$1,145,264.91	$151,778.30	$4,133.64	$.00	$14,864.77	$3,843,482.87
FY 87	657,551.33	232,778.69	687,794.46	986,376.54	1,159,438.60	168,040.50	4,735.88	.00	16,054.76	3,912,770.76
Operating Expenses										
FY 86	71,900.83	17,131.64	271,421.08	142,176.05	220,463.09	15,707.18	2,213.35	81,152.21	2,643.68	824,809.11
FY 87	53,082.33	14,841.65	306,594.72	147,601.52	219,726.73	7,366.36	550.26	80,890.02	558.42	831,212.01
Equipment										
FY 86	8,577.46	657.00	8,396.00	106.00	1,764.25	775.00	.00	.00	.00	20,275.71
FY 87	11,041.73	475.00	15,243.00	316.22	10,821.49	149.00	.00	.00	.00	38,046.44
Data Processing										
FY 86	656,323.06	.00	.00	.00	.00	.00	.00	.00	.00	656,323.06
FY 87	582,625.56	.00	.00	.00	.00	.00	.00	.00	.00	582,625.56
TOTAL										
FY 86	$1,378,434.75	$270,059.70	$943,437.30	$1,112,198.62	$1,367,492.25	$168,260.48	$6,346.99	$81,152.21	$17,508.45	$5,344,890.75
FY 87	$1,304,300.95	$248,095.34	$1,009,632.18	$1,134,294.28	$1,389,986.82	$175,555.86	$5,286.14	$80,890.02	$16,613.18	$5,364,654.77
TOTAL 85-87	**$2,682,735.70**	**$518,155.04**	**$1,953,069.48**	**$2,246,492.90**	**$2,757,479.07**	**$343,816.34**	**$11,633.13**	**$162,042.23**	**$34,121.63**	**$10,709,545.52**

Source: Comparative Statement of Disbursements for fiscal years ended June 30, 1986 and June 30, 1987, Controller's Division, North Dakota State Tax Department.

RESOURCES AVAILABLE FROM THE NORTH DAKOTA STATE TAX DEPARTMENT

COMMISSIONER'S DIVISION

Biennial Report of the Tax Commissioner
North Dakota: Where Taxes Work for People
Special Reports and Analysis on North Dakota's Tax Structure
State and Local Taxes in North Dakota: A Comparative Guide

INCOME AND OIL TAXES DIVISION

Banks, Trust Companies and Building and Loan Assocations Tax Law (Loose-leaf manual)
Guidelines
Income Tax Law and Rules (Loose-leaf manual)
Practitioner's Newsletter (issued periodically to report developments, law changes, etc.)
Withholding Information for Employers

PROPERTY TAX DIVISION

Assessor's Education Program Brochure
Assessor's Home Study Manuals
Assessor's Manual
Geothermal, Solar, or Wind Energy Devices Brochure
North Dakota Tax Incentives for Business Brochure
Proceedings of the State Board of Equalization
Property Tax Credit for Senior Citizens or Disabled Persons Brochure
Property Tax Exemption for Improvements to Residential or Commercial Buildings or Structures Brochure
Property Tax Statistical Report
Property Taxation Manual

SALES AND SPECIAL TAXES DIVISION

Estate Tax Law, Rules and Regulations
Guidelines
Motor Vehicle Fuel Tax Law, Rules and Regulations
Motor Vehicle Fuel Tax Newsletter
Sales and Use Tax Law, Rules and Regulations
Sales and Use Tax Quarterly Newsletter
Sales and Use Tax Statistical Report

For a copy of these materials or to obtain North Dakota tax forms, write: North Dakota Tax Department, State Capitol, Bismarck, ND 58505.

The Tax Department also provides a statewide, toll-free telephone number (1-800-472-2110) which taxpayers may use to obtain assistance in filing taxes or to obtain answers to tax questions.